

ORIGINAL



0000149086

RECEIVED

2013 OCT 23 P 3:50

ARIZONA CORP COMMISSION  
DOCKET CONTROL

FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
Todd Wiley (No. 015358)  
2394 E. Camelback Road  
Suite 600  
Phoenix, Arizona 85016  
Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY,  
AN ARIZONA CORPORATION FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WASTEWATER  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE.

DOCKET NO: SW-01428A-13-0042

Arizona Corporation Commission

**DOCKETED**

OCT 23 2013

DOCKETED BY

DOCKET NO: W-01427A-13-0043

IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY,  
AN ARIZONA CORPORATION FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES AND  
CHARGES BASED THEREON FOR UTILITY  
SERVICE.

**NOTICE OF FILING REBUTTAL  
TESTIMONY**


Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO") hereby submits this Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith are LPSCO's Rebuttal Testimonies, which include the following testimonies, along with supporting schedules and/or attachments:

1. Rebuttal Testimony of Christopher D. Krygier;
2. Rebuttal Testimony of Thomas J. Bourassa (Rate Base);
3. Rebuttal Testimony of Greg Sorensen;
4. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital); and

1           5.     Rebuttal Testimony of Wendell Licon, PhD, CFA.

2           RESPECTFULLY SUBMITTED this 23rd day of October, 2013.

3   FENNEMORE CRAIG, P.C.

4     
5           By: \_\_\_\_\_

6   Jay L. Shapiro  
7   Todd C. Wiley  
8   Attorneys for Liberty Utilities  
   (Litchfield Park Water & Sewer) Corp.

9           **ORIGINAL** and 13 copies filed  
10           this 23rd day of October, 2013, with:

11           Docket Control  
12           Arizona Corporation Commission  
13           1200 West Washington Street  
14           Phoenix, Arizona 85007

15           **COPY** hand-delivered  
16           this 23rd day of October, 2013 to:

17           Teena Jibilian, Administrative Law Judge  
18           Hearing Division  
19           Arizona Corporation Commission  
20           1200 West Washington  
21           Phoenix, AZ 85007

22           Robin Mitchell, Esq.  
23           Matthew Laudone, Esq.  
24           Legal Division  
25           Arizona Corporation Commission  
26           1200 West Washington  
                 Phoenix, AZ 85007

**COPY** sent via U.S. mail  
                 this 23rd day of October, 2013, to:

                 Dan Pozefsky, Esq.  
                 Residential Utility Consumer Office  
                 1110 W. Washington St., Suite 220  
                 Phoenix, Arizona 85007

1 Olivia Burnes  
2 356 N. Cloverfield Circle  
3 Litchfield Park, Arizona 85340

4 By:   
5 8683810.1/060199.0028

6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

1 FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2 Todd Wiley (No. 015358)  
2394 E. Camelback Road  
3 Suite 600  
Phoenix, Arizona 85016  
4 Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8  
9 IN THE MATTER OF THE  
10 APPLICATION OF LITCHFIELD PARK  
11 SERVICE COMPANY, AN ARIZONA  
12 CORPORATION, FOR A  
13 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES  
FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
15 APPLICATION OF LITCHFIELD PARK  
16 SERVICE COMPANY, AN ARIZONA  
17 CORPORATION, FOR A  
18 DETERMINATION OF THE FAIR  
19 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-01428A-13-0042

20  
21 **REBUTTAL TESTIMONY OF**  
22 **CHRISTOPHER D. KRYGIER**

23 **October 23, 2013**  
24  
25  
26

Table of Contents

I.	INTRODUCTION AND PURPOSE OF TESTIMONY.....	1
II.	STAFF RATE BASE ADJUSTMENTS (WASTEWATER) .....	3
III.	RUCO OPERATING INCOME ADJUSTMENTS .....	3
A.	RUCO OPERATING INCOME ADJUSTMENT NO. 5 - DECLINING USAGE ADJUSTMENT .....	4
B.	RUCO OPERATING INCOME ADJUSTMENT NO. 8 - EMPLOYEE PENSION BENEFITS .....	7
C.	RUCO OPERATING INCOME ADJUSTMENT NO. 13 - APUC COST ALLOCATIONS .....	8
IV.	POLICY PROPOSALS .....	20
A.	POLICY PROPOSAL - DSIC / CSIC / SIB .....	21
B.	POLICY PROPOSAL - PURCHASED POWER ADJUSTMENT MECHANISM (PPAM) .....	25
C.	POLICY PROPOSAL - BALANCED RATE DESIGN .....	27
V.	STAFF ENGINEERING RECOMMENDATIONS FROM MS. HAINS .....	27
VI.	STAFF RECOMMENDATIONS REGARDING INCOME TAXES .....	28

8600956.1/060199.0028

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Christopher D. Krygier, and my business address is 12725 W. Indian  
4 School Road, Suite D101, Avondale, AZ 85392.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.,  
7 which is generally known as "LPSCO."

8 **Q. WAS YOUR TESTIMONY PREVIOUSLY FILED IN THIS CASE?**

9 A. Yes, my direct testimony was filed on February 28, 2013 as part of the Application.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. I am responding to arguments made by Staff and RUCO in their direct testimonies  
12 filed on September 27, 2013. In particular, my rebuttal testimony addresses the  
13 following issues:

- 14 • Staff Rate Base Adjustment No. 1 – Post Test Year Plant
- 15 • RUCO Operating Income Adjustment No. 5 – Declining Usage Adjustment
- 16 • RUCO Operating Income Adjustment No. 8 – Employee Pension Benefits
- 17 • RUCO Operating Income Adjustment No. 13 – APUC Cost Allocations
- 18 • Policy Proposals
  - 19 ○ Distribution System Improvement Charge ("DSIC")
  - 20 ○ Collection System Improvement Charge ("CSIC")
  - 21 ○ System Improvement Benefit Mechanism ("SIB")
  - 22 ○ Property Tax Accounting Deferral
  - 23 ○ Purchased Power Adjustment Mechanism ("PPAM")
  - 24 ○ Balanced Rate Design
  - 25 ○ Income Taxes
- 26 • Staff Engineering Recommendations

1   **Q.   HAVE YOU BEEN RESPONSIBLE FOR THE COMPANY'S HANDLING**  
2   **OF THIS RATE CASE?**

3   A.   Yes. In my capacity as Liberty's Utilities Rates and Regulatory Manager, I am  
4   responsible for overseeing all of Liberty's rate cases in Arizona, Texas and  
5   Arkansas. In this case, I have coordinated with our outside expert consultant  
6   Mr. Bourassa, whose rebuttal testimony addresses the other rate base and operating  
7   income issues, as well as rate design and cost of capital. I report directly to  
8   Mr. Sorensen, whose rebuttal testimony addresses RUCO Operating Income  
9   Adjustment No. 14 (Achievement Pay). I am also responsible for the Company's  
10   retention of Dr. Licon, a Professor of Finance at Arizona State University.  
11   Dr. Licon will address the big picture overview of cost of capital while Mr.  
12   Bourassa addresses the detailed cost of capital analysis.

13         I was also responsible for overseeing all of the discovery and other less  
14   formal efforts by the Company to work with Staff and RUCO to eliminate issues in  
15   dispute in this case. For instance, Ms. Hains, the Staff Engineer, conducted an  
16   extremely thorough and detailed inspection and analysis of our infrastructure  
17   (wells, tanks, treatment plants, etc.), and with the help of her engineering  
18   colleagues, of our request for a System Improvement Benefit (SIB). I was in touch  
19   with Ms. Hains on a regular basis throughout the past six months, answering her  
20   questions and helping her to evaluate our plant. We undertook similar efforts,  
21   meeting several times during the past several months with the analysts for Staff and  
22   RUCO. While we have not been able to eliminate all of the issues in dispute, we  
23   have limited them significantly. This is a direct result of Staff's and RUCO's  
24   professionalism, courtesy and willingness to cooperate in an effort to limit the  
25   issues in dispute in this case. On behalf of the entire Liberty rate team, I want to  
26   express our appreciation of that effort by Staff and RUCO.

1 **II. STAFF RATE BASE ADJUSTMENTS (WASTEWATER)**

2 **Q. PLEASE DESCRIBE STAFF'S PROPOSED WASTEWATER DIVISION**  
3 **ADJUSTMENT NO. 1?**

4 A. Staff proposed disallowing \$700,000 of plant because this plant – an equalization  
5 basin for our Palm Valley Reclamation Plant – is not yet in service. However, it  
6 has always been expected that this plant would be in service before the hearing in  
7 this matter. Therefore, we understand that Staff recommends denial at this stage,  
8 but will include the plant in rate base if the plant is used and useful by the hearing  
9 date.

10 **Q. WHAT IS THE STATUS OF THE PROJECT?**

11 A. The project is scheduled to be completed the first week of November.  
12 The Company has already scheduled an inspection with Ms. Hains on November 7,  
13 2013 to confirm the plant is in-service. Additionally, we provided updated cost  
14 details, approximately \$625,000 was incurred to date, along with supporting  
15 invoices to the parties on October 17, 2013. The project is estimated to cost  
16 approximately \$1.2 million with \$0 in associated retirements. Finally, LPSCO will  
17 provide the remaining final invoices as soon as they are received.

18 **Q. WHAT IS RUCO'S POSITION REGARDING THE EQ BASIN?**

19 A. RUCO included the project in rate base.

20 **III. RUCO OPERATING INCOME ADJUSTMENTS**

21 **Q. DOES RUCO PROPOSE DIFFERENT AND/OR ADDITIONAL**  
22 **OPERATING INCOME ADJUSTMENTS THAN STAFF?**

23 A. Yes. RUCO proposed the following Operating Income Adjustments that Staff did  
24 not recommend:

25 A. RUCO Adjustment No. 5 – Declining Usage for Water Division

26 B. RUCO Adjustment No. 8 – Employee Pension Benefits

1 C. RUCO Adjustment No. 13 – APUC Cost Allocations

2 I address each of these below.

3 A. RUCO Operating Income Adjustment No. 5 - Declining Usage  
4 Adjustment

5 Q. DOES RUCO AGREE WITH THE COMPANY AND STAFF ON THE  
6 DECLINING USAGE ADJUSTMENT?

7 A. No, RUCO reverses the proposed adjustment.

8 Q. WHY DOES RUCO OPPOSE THE DECLINING USAGE ADJUSTMENT?

9 A. RUCO says there are several reasons, but Mr. Mease really only offers two - the  
10 adjustment is not known and measurable and the Company's analysis "is flawed  
11 and should not be relied upon."<sup>1</sup>

12 Q. IS THE ADJUSTMENT KNOWN AND MEASURABLE?

13 A. As proposed by Staff and the Company, yes.

14 Q. PLEASE EXPLAIN.

15 A. We can't think of this in the usual sense of known and measurable. If Mr. Mease is  
16 suggesting that we cannot know today exactly how much revenue we will lose  
17 when our customers listen to the conservation signal sent by the Commission  
18 through the rate design, I can't really argue that point. But I respectfully suggest  
19 his view is too narrow. As Staff recommends, LPSCO is willing to stipulate to the  
20 conditions outlined in Decision No. 74081 and cited in Mr. Carlson's Direct  
21 Testimony.<sup>2</sup> If RUCO is correct and the adjustment is ultimately flawed, there will  
22 be recourse for the ratepayers.

23  
24  
25 <sup>1</sup> Direct Testimony of Robert B. Mease ("Mease Dt.") at 24-25.

26 <sup>2</sup> Direct Testimony of Darron W. Carlson ("Carlson Dt.") at 30-32.

1 **Q. WHAT ARE THESE CONDITIONS AND HOW DO THEY PROTECT**  
2 **YOUR CUSTOMERS?**

3 A. The Company will be required to make a filing each year “that details not only the  
4  $\frac{3}{4}$  inch and 1 inch customer usage, but all customer usage.”<sup>3</sup> With this data, Staff,  
5 and any other party, can make a “recommendation to the Commission to modify or  
6 eliminate the water usage adjustment.” In other words, under the conditions  
7 outlined in Decision No. 74081 and recommended by Staff here, if it becomes  
8 known that the Company’s revenues are no longer declining due to a rate design  
9 that encourages reductions in water use, then the declining usage adjustment can be  
10 modified or eliminated based on then measurable data.

11 **Q. WELL, MR. KRYGIER, ISN’T IT POSSIBLE THAT RUCO DID NOT**  
12 **KNOW STAFF WOULD OFFER THESE CONDITIONS WHEN IT FILED**  
13 **ITS TESTIMONY AND MAY AGREE?**

14 A. RUCO may not have known that Staff would support a declining usage subject to  
15 those conditions in this case. But it appears to me that the conditions were a  
16 suggestion by RUCO in the other docket, so they certainly could have taken that  
17 approach in this case as well.<sup>4</sup> I do not know why RUCO would agree to an  
18 adjustment with certain conditions for Arizona Water Company but flat out reject it  
19 for us.

20 **Q. FAIR ENOUGH, BUT WHY SHOULD THE COMMISSION APPROVE A**  
21 **DECLINING USAGE ADJUSTMENT IN THIS CASE?**

22 A. For the same reasons it recently did so in Decision No. 74081. Mr. Olea testified  
23 that that the Commission’s successful pursuit of water conservation through tiered  
24

---

<sup>3</sup> *Id.* at 32:8-11.

<sup>4</sup> *See* RUCO’s Exceptions (filed Sept. 5, 2013 in Docket No. W-01445A-12-0348); RUCO’s Notice of Filing Attachment to Exceptions (filed Sept. 6, 2013 in Docket No. W-01445A-12-0348); RUCO’s Notice of Filing Amendment to Exceptions (filed Sept. 6, 2013 in Docket No. W-01445A-12-0348).

1 rate designs, BMPs and other means has reduced water consumption.<sup>5</sup>  
2 The Commission has been working for over a decade now to promote  
3 conservation, pretty much in every way it can. That's a great thing and Liberty  
4 totally supports water conservation. "Because Water Matters Every Day" is not  
5 just a publicity slogan. Conservation is engrained into the Algonquin way of doing  
6 business.

7 But, reduced water use also means reduced revenue, and reduced revenues  
8 means the utility will not collect the amount of revenue it was authorized. Now  
9 that we know the water conservation efforts are working, we need a mechanism to  
10 ensure the utility isn't bearing too much of the cost of serving the public interest.  
11 This mechanism is the declining usage adjustment.

12 **Q. ARE YOU AWARE OF ANY ANALYSIS TO SUPPORT YOUR**  
13 **SUGGESTION THAT CONSERVATION AND THE RATE DESIGNS USED**  
14 **TO ACHIEVE CONSERVATION ARE IMPACTING THE ABILITY OF**  
15 **WATER UTILITIES TO EARN THEIR REVENUE REQUIREMENT?**

16 A. Yes, Arizona Regulatory Reports recently completed an analysis of 45 water utility  
17 rate cases completed since December 2007. The analysis revealed that anywhere  
18 from 67% to 86% of the utility companies did not earn their authorized revenue  
19 and rate designs were cited as a factor.<sup>6</sup>

20 **Q. WHAT ARE THE IMPLICATIONS TO A UTILITY COMPANY THAT IS**  
21 **PREVENTED FROM COLLECTING ITS AUTHORIZED REVENUE?**

22 A. If a utility cannot collect its authorized revenue, let alone achieve its authorized  
23 ROE, it will have to file more rate cases. Obviously, if a utility cannot collect its  
24

---

25 <sup>5</sup> Responsive Testimony of Steven M. Olea, (filed May 3, 2013 in Docket No. W-01455A-12-0348) ("Olea  
(AWC Northern Group Rate Case) Responsive Testimony") at 2:9-22.

26 <sup>6</sup> Arizona Regulatory Reports, June 2013, Issue 13-1, at 7 (attached as **Exhibit CK-RB1**).

1 authorized revenue, its financial condition is negatively impacted and its ability to  
2 pay its bills and attract capital is jeopardized.

3 **Q. ARE THERE ANY OTHER BENEFITS OF APPROVAL IN THIS CASE?**

4 A. Yes. For one thing, the Company will accept the addition of five more BMPs as  
5 recommended part of Ms. Hains testimony, which, if successful, will continue to  
6 decrease water consumption within the service territory. Ironically, this further  
7 justifies a declining usage adjustment.

8 **Q. THANK YOU. WOULD YOU LIKE TO ADD ANYTHING ELSE IN**  
9 **SUPPORT OF THE RECOMMENDATION BY THE COMPANY AND**  
10 **STAFF TO APPROVE A DECLINING USAGE ADJUSTMENT?**

11 A. I would turn back to Mr. Olea again who recently testified: "Staff has continued to  
12 recommend this type of rate design because it believes that the inclining block rates  
13 cause ratepayers to conserve water, i.e., use it more efficiently. If this is not the  
14 case, then the Staff and the Commission have been wasting their time designing  
15 those rates and arguing over them."<sup>7</sup> Approving a declining usage adjustment  
16 allows the Commission to promote conservation and offer LPSCO a reasonable  
17 opportunity to recover its cost of service. Seems like a win-win to us.

18 **B. RUCO Operating Income Adjustment No. 8 – Employee Pension**  
19 **Benefits**

20 **Q. WHAT IS RUCO'S PROPOSED ADJUSTMENT?**

21 A. RUCO proposed a disallowance of \$62,199 and \$76,431 for the water and  
22 wastewater division, respectively.<sup>8</sup>

25 <sup>7</sup> Olea (AWC Northern Group Rate Case) Responsive Testimony at 2:11-16.

26 <sup>8</sup> Mease Dt. at 26:17-18.

1 Q. WHAT REASONS DID RUCO OFFER IN SUPPORT OF THIS  
2 REDUCTION TO OPERATING EXPENSES?

3 A. RUCO argues first that LPSCO did not make the contribution during the test year  
4 and second that LPSCO is under no obligation to make contributions to the plan.

5 Q. IS THIS TRUE?

6 A. Yes, and that is why we have met with RUCO again to address their concerns.  
7 First, if the adjustment is known and measurable, then the argument that it was not  
8 in the test year is of no account. The Commission rules define and authorize and  
9 the Commission routinely approves pro forma adjustments.<sup>9</sup> But, Liberty is not  
10 interested in recovering an expense from its customers that it is not incurring. In an  
11 effort to get RUCO comfortable that the Company is incurring the expense, the  
12 Company will provide evidence at the hearing (or with its final briefs) showing that  
13 the expense as incurred. We hope with this assurance, RUCO will join the  
14 Company and Staff in supporting the recovery of this expense similar to what was  
15 recently done with respect to LPSCO's affiliate Liberty Utilities (Rio Rico Water  
16 & Sewer) Corp.<sup>10</sup>

17 C. RUCO Operating Income Adjustment No. 13 – APUC Cost Allocations

18 Q. BEFORE TURNING TO RUCO'S RECOMMENDED ADJUSTMENT, CAN  
19 YOU SUMMARIZE STAFF'S POSITION ON THE COST ALLOCATION  
20 AND COMPARE IT TO THE COMPANY'S?

21 A. Yes, that's actually pretty simple. The Company's position is generally Staff's  
22 position as we have generally accepted the small adjustments Mr. Carlson  
23 recommended. This is reflected in the C schedules prepared by Mr. Bourassa.

24  
25 <sup>9</sup> Ariz. Admin. Code § R14-2-103(A)(3)(i).

26 <sup>10</sup> Docket No. WS-02676A-12-0196.

1 **Q. OKAY, AND WHAT CORPORATE COST ADJUSTMENT DOES RUCO**  
2 **PROPOSE?**

3 A. RUCO's Adjustment No. 13 proposes to disallow \$115,363 and \$115,707 from  
4 water and wastewater, respectively, related to costs allocated from LPSCO's  
5 ultimate parent Algonquin Power and Utilities Corporation or APUC. The specific  
6 amounts disallowed by cost category are illustrated in the Table below.

7

	LPSCO Water	LPSCO Wastewater
Professional Services	\$22,527	\$21,063
Unitholder Communications	\$23,202	\$21,694
Trustee / Director Fees	\$12,520	\$11,706
Employee Stock Purchase Plan	\$141	\$132
Escrow & Transfer Agent Fees	\$2,483	\$2,322
Stock Option Expense <sup>11</sup>	\$45,557	\$42,597
Dues & Memberships	\$1,561	\$1,460
Total	\$115,363	\$115,707

17

18 **Q. DID RUCO CALCULATE THIS DISALLOWANCE CORRECTLY?**

19 A. RUCO made one minor omission that does have a material impact on their  
20 adjustment. RUCO neglected to annualize the original cost pool like LPSCO did in  
21 its initial application (*see* Water Adjustment No. 10 and Wastewater Adjustment  
22 No. 8). Once you take into account the annualization, the adjustments should total  
23 \$77,314 and \$66,238 for the water and wastewater division, respectively.<sup>12</sup>

24  
25 <sup>11</sup> Stock Option Expense is addressed by Mr. Sorensen as part of the Achievement Pay disallowance  
proposed by RUCO.

26 <sup>12</sup> *See Exhibit CK-RB2.*

1 Q. WHAT RATIONALE DID RUCO RELY UPON IN PROPOSING THIS  
2 DISALLOWANCE?

3 A. Mr. Mease says RUCO relied upon Decision No. 72059 (Jan. 6, 2011).<sup>13</sup>

4 Q. IS THAT IT?

5 A. Basically, yes. I do not dispute that some corporate costs were disallowed in that  
6 decision. The problem is that RUCO seems to have completely ignored one crucial  
7 element found a few lines above in that decision where the Commission stated that:  
8 "In a future rate case, with additional evidence, the Company may be able to meet  
9 its burden to demonstrate that the APT<sup>14</sup> management fees costs provide real, non-  
10 duplicative benefits to [Rio Rico Utility] ratepayers, but we find that the Company  
11 has not met its burden in this case."<sup>15</sup> (emphasis added)

12 Q. WHAT IS THE IMPORTANCE OF THIS STATEMENT?

13 A. First, it is inappropriate and I believe unfair to just read and rely on that one  
14 decision. RUCO has participated in every single rate case Liberty has filed in  
15 Arizona since it came to the state about a dozen years ago. RUCO knows or  
16 should know from that history that the recovery of corporate costs has been an  
17 issue in every rate case, but that Liberty and its utilities have continued to try to  
18 show the necessity and benefit of the expenses, and that the Commission has not  
19 only authorized an increasing percentage of these costs, but explicitly left open the  
20  
21  
22  
23

24 <sup>13</sup> Mease Dt. at 29-30 citing Decision No. 72059 at 22:15-18.

25 <sup>14</sup> APT stands for Algonquin Power Trust, a predecessor name to Algonquin Power & Utilities  
26 Corporation.

<sup>15</sup> *Rio Rico Utilities, Inc.*, Decision No. 72059, at 22:4-6.

1 door for the Company to attempt to recover more of the costs that were authorized  
2 last time.<sup>16</sup>

3 **Q. BUT MR. KRYGIER, ISN'T IT POSSIBLE RUCO JUST CONCLUDED**  
4 **AGAIN THAT YOU FAILED TO MEET YOUR BURDEN OF PROOF?**

5 A. That's not what Mr. Mease testified. He said their disallowance is based on that  
6 one decision.<sup>17</sup> He does not discuss any of the additional evidence we have  
7 provided and therefore has not given the Commission any reason to conclude this  
8 time that we came up short.

9 **Q. WHAT HAS THE COMPANY DONE TO MEET THAT BURDEN OF**  
10 **PROOF IN THIS CASE AND SHOW THAT THE COSTS AT ISSUE ARE**  
11 **REASONABLE AND NECESSARY?**

12 A. Several things. First, we provided very detailed documentation to support the  
13 underlying costs. This significant documentation was given to Staff and RUCO in  
14 an effort to eliminate any issue about lack of supporting documentation.  
15 This effort appears to have worked, as the disallowance in dispute does not arise  
16 from a claimed lack of support.

17 Second, we presented new evidence that has not been provided in any prior  
18 Liberty rate cases. This new information overwhelmingly demonstrates that many  
19 of the costs disallowed by RUCO in this case (and in prior cases) are legal  
20 requirements of the Toronto Stock Exchange (TSX). Finally, since the prior rate  
21 cases, the Company spent significant time with Commission Staff working through  
22

23 <sup>16</sup> *Id.*; *Bella Vista Water Co., Inc.*, Decision No. 72251, at 27:10-13 ("As the parties have reviewed the  
24 costs that have been included in the Central Cost Pool, they have identified certain expenses that should  
25 have been directly billed to one or another of APUC's facilities, as well as expenses which were not  
26 adequately documented or not appropriate to be recovered from utility ratepayers. Each rate case has  
refined the process.")(emphasis added)

<sup>17</sup> See Mease Dt. at 30:1-3.

1 the details of the corporate cost process and how LPSCO and sister entities benefit  
2 from the shared services model.

3 **Q. WHY WASN'T THIS INFORMATION PROVIDED IN PRIOR CASES?**

4 A. I do not know, but that is to Liberty's detriment. We are presenting the additional  
5 evidence in this case and RUCO is ignoring it.

6 **Q. CAN YOU ILLUSTRATE HOW THIS ADDITIONAL EVIDENCE**  
7 **SUPPORTS THE NECESSITY AND BENEFIT OF THE COSTS RUCO**  
8 **DISALLOWS?**

9 A. Yes, please see attached **Exhibit CK-RB3**, which is the Company's response to  
10 Staff Data Request JMM 5-2. This request, which was also provided to RUCO,  
11 detailed that many of the costs that RUCO proposes to disallow are requirements of  
12 being a publicly traded entity on the TSX. These costs are the same types of costs  
13 that entities traded on the New York Stock Exchange (NYSE) are required to incur.  
14 They are a necessary and unavoidable part of a publicly traded entity's cost of  
15 doing business. APUC's presence on the TSX is the means by which Liberty  
16 obtains capital for investment and I do not think anyone disputes that APUC's  
17 access to capital is a benefit to Liberty and its customers in Arizona. If we need  
18 access to capital and this is how we do it, then the costs to do it should be included  
19 if we show they are required, which we have done in this case.

20 **Q. ANYTHING ELSE?**

21 A. Yes, another example is the Cost Allocation Manual (CAM) we provided to Staff  
22 and RUCO. The CAM details how the parent company allocates expenses and the  
23 processes and controls surrounding them.

1 Q. DO YOU KNOW WHETHER RUCO'S RECOMMENDATION IS  
2 CONSISTENT WITH HOW ITS TREATMENT OF THESE COSTS  
3 INCURRED BY OTHER UTILITIES?

4 A. Actually, I do. I took Attachment A of Mr. Mease's Direct Testimony and  
5 analyzed all of the rate cases he participated in. They included the following six  
6 cases:

- 7 1. Arizona Water Company – Docket No. W-01445A-11-0310
- 8 2. Pima Utility Company – Docket No. W-02199A-11-0329
- 9 3. Tucson Electric Power – Docket No. E-01933A-12-0291
- 10 4. Arizona Water Company – Docket No. W-01445A-12-0348
- 11 5. UNS Electric – Docket No. E-04204A-12-0504
- 12 6. Global Water – W-01212A-12-0309

13 I did not find any instances where Mr. Mease or anyone else at RUCO  
14 recommended significant disallowance of similar costs for any of these utilities  
15 except the Global Water case.

16 Q. ARE ANY OF THESE COMPANIES PUBLICLY TRADED?

17 A. Yes, Tucson's Electric Power, UNS Electric and Global Water are all Arizona  
18 based utilities that are publicly traded entities on either the NYSE or TSX.  
19 Nevertheless, besides Global, I couldn't find any instances where costs similar to  
20 those disallowed in this case were materially disallowed by RUCO.<sup>18</sup> We really  
21

22  
23 <sup>18</sup> Other instances in which corporate cost allocations appeared to have been allowed by RUCO without  
24 dispute include Docket No. 00-0962 (Arizona Water Company), Docket No. 01-0487 (LPSCO, prior to  
25 Liberty Utilities ownership), Docket No. 02-0867 (Arizona-American Water Company), Docket No.  
26 06-0014 (Arizona-American Water Company), Docket No. 06-0491 (Arizona-American Water  
Company), Docket No. 07-0209 (Arizona-American Water Company), Docket No. 07-0551 (Chaparral  
City Water Company), Docket No. 10-0382 (Goodman Water Company), Docket No. 10-0517  
(Arizona Water Company), Docket No. 11-0329 (Pima Utility Company), Docket No. 09-0206 (UNS  
Electric), and Docket No. 10-0458 (Southwest Gas Company).

1 don't know why we are treated so special by RUCO in that we appear to be the  
2 only utility that has to regularly fight for recovery of these costs

3 **Q. OKAY, LET'S DISCUSS "THESE COSTS" IN MORE DETAIL. WHAT**  
4 **ARE UNITHOLDER COMMUNICATIONS EXPENSES?**

5 A. Unit holder communication costs are incurred to comply with filing and regulatory  
6 requirements of the TSX and to meet the expectations of shareholders.

7 **Q. WHY ARE UNITHOLDER COMMUNICATIONS REASONABLE TO**  
8 **RECOVER IN RATES?**

9 A. LPSCO's ultimate parent, APUC, a publicly traded entity, must issue certain  
10 communications subject to the TSX's rules and regulations. If we don't follow the  
11 communication requirements of the TSX, we risk delisting. Examples include  
12 Section 714<sup>19</sup> of the TSX Company Manuel stating that "TSX may delist securities  
13 of a listed issuer that has failed to comply with TSX's Timely Disclosure policy..."  
14 Additionally, Section 406 of the TSX Company Manuel states in part that  
15 "Companies whose securities are listed on the Exchange are legally obligated to  
16 comply with the provisions on timely disclosure..."<sup>20</sup> Finally, the Canadian  
17 National Policy 51-201 Disclosure Standards<sup>21</sup> states in Section 4.5 that  
18 "Companies who do not comply with an exchange's requirements could find  
19 themselves subject to an administrative proceeding before a provincial securities  
20 regulator" (emphasis added).

21 It appears clear to us from these three different sections of rules that if  
22 APUC were to violate rules regarding Unitholder Communications it may be in  
23 violation of TSX rules and risk being delisted.

24  
25 <sup>19</sup> See Exhibit CK-RB4.

26 <sup>20</sup> See Exhibit CK-RB5.

<sup>21</sup> See Exhibit CK-RB6.

1 Q. DID YOU PROVIDE THE TSX SECTION 714, SECTION 406 AND  
2 NATIONAL POLICY 51-201 TO RUCO?

3 A. Yes, as part of LPSCO's response to Staff Data Request JMM 5-2, which RUCO  
4 also received.

5 Q. ARE THE RULES REGARDING UNITHOLDER COMMUNICATIONS ON  
6 THE TSX SIMILAR TO THE NYSE?

7 A. Yes. The requirements of the TSX appear no different than publicly traded  
8 companies on the NYSE whose Listed Company Manual, Section 202.05 states:  
9 "A listed company is expected to release quickly to the public any news or  
10 information that might reasonably be expected to materially affect the market for  
11 its securities. This is one of the most important and fundamental purposes of the  
12 listing agreement which the company enters into with the Exchange" (emphasis  
13 added).<sup>22</sup>

14 Q. YOU MENTIONED "DELISTING." WHAT WOULD THE IMPACTS BE  
15 IF APUC WAS DELISTED?

16 A. Delisting from the TSX would cut off APUC's access to the capital markets.  
17 The Commission has recognized that one of the great benefits of being part of the  
18 APUC is the access to capital that the parent is able to provide its subsidiaries,  
19 including the Company and its operating affiliates in Arizona.<sup>23</sup>

20 Q. IF LPSCO WAS A STAND ALONE PUBLICLY TRADED COMPANY,  
21 WOULD IT INCUR UNITHOLDER COMMUNICATIONS EXPENSES?

22 A. Yes, the rules apply to all entities on the exchanges, not just to APUC.  
23  
24  
25

---

<sup>22</sup> See Exhibit CK-RB7.

<sup>23</sup> *Rio Rico Utilities, Inc.*, Decision No. 72059, at 21:19-21.

1 **Q. OKAY. WHAT ARE TRUSTEE/DIRECTOR FEES?**

2 A. Trustee/Director fees are also known as Board of Directors Fees. These fees are  
3 compensation provided to the company's Board of Directors in return for providing  
4 services to the company in the form of things like strategic oversight, corporate  
5 governance and budget reviews among other duties. All publicly traded companies  
6 on the TSX or NYSE are required to have a Board of Directors. APUC's Board of  
7 Directors has six members.

8 **Q. WHY IS IT REASONABLE TO ALLOW LPSCO TO RECOVER AN**  
9 **ALLOCATED SHARE OF TRUSTEE/DIRECTOR FEES IN RATES?**

10 A. Maintaining a board of directors, especially an independent board not otherwise  
11 employed by the entity, is a requirement of the TSX and NYSE. The TSX's Guide  
12 to Listing states the following: "Management, including board of directors, should  
13 have adequate experience and technical expertise relevant to the company's  
14 business and industry as well as adequate public company experience. Companies  
15 are required to have at least two independent directors."<sup>24</sup> The NYSE has a similar  
16 requirement in Section 303A.01: "Listed companies must have a majority of  
17 independent directors. Effective boards of directors exercise independent judgment  
18 in carrying out their responsibilities. Requiring a majority of independent directors  
19 will increase the quality of board oversight and lessen the possibility of damaging  
20 conflicts of interest."<sup>25</sup>

21  
22  
23  
24  
25 

---

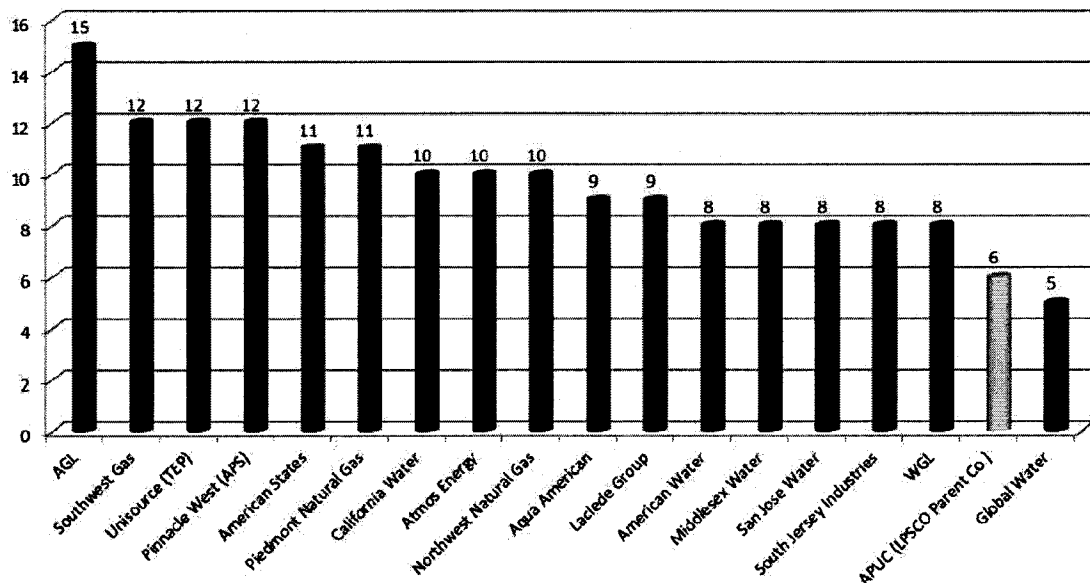
<sup>24</sup> See Exhibit CK-RB8.

26 <sup>25</sup> See Exhibit CK-RB9.

1 Q. DO YOU KNOW HOW MANY MEMBERS OF THE BOARD OF  
2 DIRECTORS OTHER UTILITIES HAVE?

3 A. We performed an analysis of all of the Boards of Directors in RUCO's cost of  
4 capital proxy group used in the last RRUI rate case.<sup>26</sup> The companies contained in  
5 the graph below are all publicly traded utilities, most are gas and water utilities.  
6 However, Tucson Electric Power, Arizona Public Service and Global Water were  
7 also included to bring a direct comparison to other Arizona rate regulated utilities.

8 **Number of Board of Directors in RUCO's Proxy Groups**



19 Q. WHAT IS THE SIGNIFICANCE OF THE GRAPH ABOVE?

20 A. The graph reflects two significant conclusions. First, it illustrates how every single  
21 publicly traded company maintains a board of directors, just like LPSCO's parent  
22 company. Second, it reflects that APUC has a smaller Board of Directors than  
23 almost every other utility in the group, reflecting an ultimate cost savings to  
24 customers.

25  
26 <sup>26</sup> Docket No. WS-02676A-12-0196.

1 **Q. DO OTHER PUBLICLY TRADED COMPANIES COMPENSATE THEIR**  
2 **BOARD OF DIRECTORS?**

3 A. Yes, in response to Staff Data Request JMM 5-2, we included 17 examples of  
4 utility companies that compensated members of the Board of Directors.  
5 This compensation is no different than compensating employees; entities need to  
6 compensate members of the board to attract qualified individuals to the position.

7 **Q. WHY IS IT REASONABLE TO ALLOW LPSCO TO RECOVER AN**  
8 **ALLOCATED SHARE OF THE BOARD OF DIRECTORS FEES IN**  
9 **RATES?**

10 A. Like Unitholder Communication Costs, these fees are necessary for APUC to be  
11 able to provide the benefit of access to capital. Without these costs, it cannot  
12 operate as a publicly traded entity on the TSX. These are costs that LPSCO would  
13 incur if it were a stand-alone publicly traded company; they are similar to those  
14 authorized for other publicly traded utilities providing service in Arizona.

15 **Q. NEXT, WHAT ARE ESCROW AND TRANSFER AGENT FEES?**

16 A. Escrow and Transfer Agent fees are expenses incurred in connection with tracking  
17 all of APUC'S shareholders of APUC. This is another legal requirement of the  
18 TSX and NYSE.

19 **Q. WHY ARE ESCROW & TRANSFER AGENT FEES REASONABLE TO**  
20 **RECOVER IN RATES?**

21 A. TMX Policy 3-1, Section 7 requires that APUC maintain a transfer agent.  
22 In particular, Section 7.1 provides that "Each Issuer must maintain a record of its  
23 current registered shareholders, a record of each allotment or issuance and a record  
24 of each transfer in the registered ownership of its securities."<sup>27</sup> Additionally,  
25

---

26 <sup>27</sup> See Exhibit CK-RB10.

1 Section 7.2 requires that “While its securities are listed on the Exchange, an Issuer  
2 must appoint and maintain a transfer agent and registrar...” (emphasis added).  
3 This requirement appears materially identical to the NYSE’s requirements in  
4 Section 6 of the Listed Company Manual: “The company must also maintain  
5 registrar facilities for all stock of the company listed on the Exchange.” (emphasis  
6 added).<sup>28</sup> So, again, like Unitholder Communications and Board of Directors Fees,  
7 this is a requirement of being a publicly traded entity on the TSX, and therefore  
8 necessary for APUC to have access to capital, and these costs would be incurred if  
9 LPSCO were a stand-alone entity on a stock exchange.

10 **Q. THE GRAPH ABOVE ALSO REFERENCES EXPENSES RELATED TO**  
11 **EMPLOYEE STOCK PURCHASE PLAN, STOCK OPTION EXPENSE**  
12 **AND DUES & MEMBERSHIPS. WHAT ABOUT THOSE EXPENSES?**

13 A. Yes, these are costs that are known, measureable in the test year. LPSCO would  
14 incur these expenses if it were a stand alone entity.

15 **Q. WHAT ABOUT PROFESSIONAL SERVICES FEES, MR. KRYGIER?**

16 A. Professional Services including strategic plan reviews, capital market advisory  
17 services, ERP System maintenance, benefits consulting, and other similar  
18 professional services. Unlike the costs I have already discussed, these costs do not  
19 arise directly from legal requirements of the stock exchanges. Nevertheless, these  
20 are important functions of our operations and, by providing these services at the  
21 parent level, the subsidiaries are able to benefit from economies of scale.  
22 Therefore, these costs on the whole improve APUC’s access to and use of capital,  
23 which benefits all of its subsidiaries. It follows that an allocated share of these  
24 costs should also be recovered in rates.

---

25  
26 <sup>28</sup> See Exhibit CK-RB11.

1 **Q. CAN YOU PLEASE SUMMARIZE WHY THE COMMISSION SHOULD**  
2 **REJECT RUCO'S RECOMMENDATION?**

3 A. As mentioned above, the Commission clearly gave us the opportunity in future rate  
4 cases for Liberty to meet its burden of proof and recover these specific expenses as  
5 part of its cost of service. RUCO's only argument is citing one case in a long line  
6 of cases addressing the issue, nothing more. Ignoring the information we have  
7 provided does not mean we have not met our burden of proof. We have. We have  
8 shown clearly that the costs RUCO disallows are necessary for APUC to obtain  
9 and provide capital to Liberty and its Arizona subsidiaries. Since the Commission  
10 has already established that this access to capital is a benefit to customers, there is  
11 no reason to disallow these costs as long as the Company meets its burden of proof.

12 Finally, one of the key assumptions in utility ratemaking is that state public  
13 utility commissions serve as the economic "competition" for the monopoly utility.  
14 As can be seen in the marketplace, all companies, not just utilities, that are listed  
15 on the TSX or NYSE incur these types of costs. If the competitive market is  
16 incurring these costs, it seems intuitive that a public utility should be able to  
17 recover them.

18 **IV. POLICY PROPOSALS**

19 **Q. WHAT POLICY PROPOSALS DID THE COMPANY PROPOSE IN ITS**  
20 **APPLICATION?**

21 A. LPSCO proposed four separate policies centered around the rate gradualism theme.  
22 Policy No. 1 was a Distribution System Improvement Charge ("DSIC") and  
23 Collection System Improvement Charge ("CSIC") infrastructure recovery  
24 mechanism. Policy No. 2 was a Property Tax Accounting Deferral Mechanism.  
25 Policy No. 3 was a Purchased Power Adjustment Mechanism ("PPAM"). Policy  
26 No. 4 was a Balanced Rate Design. The Company will individually address each

1 of these except the Property Tax Accounting Deferral Mechanism, which request  
2 the Company is withdrawing at this time.

3 **A. Policy Proposal – DSIC / CSIC / SIB**

4 **Q. WHAT IS THE COMPANY REQUESTING?**

5 A. Initially, the Company sought approval of a DSIC and CSIC, the second being a  
6 DSIC for sewer. However, after the approval of a SIB for Arizona Water  
7 Company in Decision No. 73938 (June 27, 2013) in which Liberty Utilities has  
8 participated, we modified our request and are now seeking approval of a water and  
9 wastewater SIB.

10 **Q. WHAT IS STAFF'S POSITION ON THE SIB?**

11 A. The Company believes Staff recommends approval of a water and wastewater  
12 SIB.<sup>29</sup>

13 **Q. WHAT IS RUCO'S POSITION ON THE SIB?**

14 A. RUCO opposes any DSIC-like mechanism, including the SIB. RUCO specifically  
15 rejects the SIB for six reasons: (1) the engineering study provided by LPSCO was  
16 "not sufficient"; (2) LPSCO did not provide any financial information related to the  
17 SIB; (3) the infrastructure replacement is routine in nature; (4) cost savings are not  
18 passed onto customers; (5) no state or federal mandate requires the infrastructure  
19 replacement; and (6) LPSCO is financially healthy.<sup>30</sup> I will address each of these  
20 arguments below.

21  
22  
23  
24  
25 <sup>29</sup> Direct Testimony of Dorothy Hains at 9-10 (LPSCO Water Conclusion IX and LPSCO Wastewater  
Conclusion VI).

26 <sup>30</sup> Mease Dt. at 38-45.

1 Q. OKAY, WAS THE ENGINEERING STUDY SUFFICIENT?

2 A. Yes. The Company's engineering studies in support of the SIB contained over  
3 600 pages of detailed engineering data along the same lines as the data provided by  
4 the utility in *Arizona Water Company*, Docket No. 11-0310.

5 Q. WAS THE FINANCIAL INFORMATION RELATED TO THE SIB ALSO  
6 SUFFICIENT?

7 A. Yes, the Company's report provided cost estimates for the projects along with  
8 estimated construction timeframes. I would note though that the SIB approved in  
9 *Arizona Water Company*, Docket No. 11-0310, and the related SIB Settlement did  
10 not set forth any requirements for "financial information."

11 Q. OKAY, BUT RUCO IS CORRECT THAT THE INFRASTRUCTURE  
12 REPLACEMENT IS ROUTINE IN NATURE, ISN'T IT?

13 A. That doesn't matter. The SIB is an adjuster whose purpose is to promote rate  
14 gradualism by allowing small increases in rates to track new plant improvements  
15 between rate cases. In my direct testimony I provided Exhibit CDK-DT1, which  
16 exhibit discussed how customers prefer rate gradualism. This exhibit was a  
17 statewide Arizona poll conducted in 2012.

18 Q. WHAT ABOUT THE ARGUMENT THAT COST SAVINGS ARE NOT  
19 PASSED ON TO CUSTOMERS?

20 A. For one thing, it is very hard to quantify cost savings resulting from new plant  
21 improvements. Power costs may go down because of new plant that is more  
22 efficient but the costs for power may go up. Water loss may be reduced reducing  
23 line maintenance costs, but maintenance of other plant may result in the same test  
24 year cost. This is why the proposed SIB includes a 100 basis point reduction in the  
25 ROE, the most significant customer benefit in the country. This is real money -  
26 customers will see a credit on their bills and, as Mr. Olea has recently testified, this

1 cost savings is the equivalent of another mechanism that might attempt to track  
2 cost savings.<sup>31</sup> Second, customers will see any cost savings that RUCO describes  
3 in the next rate case. The SIB interval is no more than 5 years between rate cases,  
4 but the plant will last much longer. As such, RUCO's perceived short-term  
5 challenges should not get in the way of long-term customer benefits that are  
6 ultimately in the public interest.

7 **Q. IS IT TRUE THAT NO STATE OR FEDERAL REQUIREMENTS**  
8 **MANDATE THE SIB INFRASTRUCTURE REPLACEMENT?**

9 A. Yes, and like the argument that SIB plant replacement is routine that does not  
10 matter. Customers want rate gradualism. I doubt they have preferences whether  
11 the plant being replaced is subject to some sort of governmental mandate. RUCO's  
12 argument should also carry no weight as it has supported numerous similar  
13 adjusters at electric and gas utilities such as Arizona Public Service, Tucson  
14 Electric Power and Southwest Gas among others.

15 **Q. LASTLY, THEN, WHY DOES IT MATTER THAT LPSCO IS NOT IN**  
16 **POOR FINANCIAL HEALTH?**

17 A. It doesn't matter and RUCO's approach would send the wrong message, which is  
18 essentially that a company should be in financial ruin before regulators find ways  
19 to help the company and its customers. RUCO should be thinking of and  
20 proposing long-term means to improve utilities and the customer experience, not  
21 promoting financial catastrophe to meet adjuster eligibility standards. Besides,  
22 customers prefer rate gradualism, a fact RUCO utterly ignores in its continued  
23 opposition to the use of this important adjuster mechanism for water and sewer  
24

25  
26 <sup>31</sup> See Rehearing Testimony of Steven M. Olea (filed Oct, 4, 2013 in Docket No. W-01445A-11-0310)  
("Olea (AWC Eastern Group Rate Case) Rehearing Testimony") at 8:1-7.

1 companies in a manner similar to that such adjusters are routinely used, with  
2 RUCO's support, for Arizona's gas and electric utilities.

3 **Q. DOES RUCO MAKE ANY OTHER ARGUMENTS REGARDING THE SIB?**

4 A. Yes, RUCO also contends that if LPSCO is awarded a SIB, the authorized ROE  
5 should be lowered.<sup>32</sup>

6 **Q. HOW DOES THE COMPANY RESPOND TO RUCO'S ARGUMENT THAT**  
7 **THE ROE MUST BE LOWER IF A SIB IS IN PLACE?**<sup>33</sup>

8 A. The Company can't respond because RUCO didn't prepare any type of analysis or  
9 make any effort to explain its position or the change it would recommend.  
10 If RUCO decides to try to meet its burden of proof and submit evidence  
11 explaining its position that a SIB lowers the ROE, we will respond at that time, if  
12 necessary. For now though, we can only state that we disagree with RUCO's  
13 unsupported and unexplained assertion that the ROE should be lower if a SIB is  
14 approved.

15 **Q. HAS COMMISSION STAFF WEIGHED IN ON WHETHER THE**  
16 **PRESENCE OF A DSIC-LIKE MECHANISM IMPACTS A COMPANY'S**  
17 **RETURN ON EQUITY?**

18 A. Yes. Steve Olea also recently filed testimony on the exact subject and stated the  
19 following: "Staff believes the ROE granted to a water utility is not expressly  
20 related to whether or not that utility is granted a SIB."<sup>34</sup>

21

22

23

24

25

26

---

<sup>32</sup> Mease Dt. at 37:12-18.

<sup>33</sup> *Id.* at 37-38.

<sup>34</sup> Olea (AWC Eastern Group Rate Case) Rehearing Testimony at 2:23-23.

1           **B.     Policy Proposal – Purchased Power Adjustment Mechanism (PPAM)**

2       **Q.    THE COMPANY IS REQUESTING APPROVAL OF A PPAM, RIGHT**  
3       **MR. KRYGIER?**

4       A.    Yes, we propose an adjuster that allows us to track changes in our power expense  
5           that result from changes in the price we pay for utility service. The PPAM does  
6           not allow for recovery of increased power costs simply because we used more  
7           electricity.

8       **Q.    WHAT IS STAFF'S POSITION ON THE PPAM?**

9       A.    Staff recommends approval of the PPAM subject to two conditions: (1) that the  
10          Company provide an annual report on purchased power; and (2) that Staff calculate  
11          an annual increase or decrease, and provide a Recommended Opinion and Order  
12          for Commission approval within 30 days of the Company's annual report.<sup>35</sup>  
13          Both of these conditions are acceptable to the Company.

14      **Q.    WHAT IS RUCO'S POSITION ON THE PPAM?**

15      A.    RUCO opposes the PPAM for four reasons.<sup>36</sup> First, RUCO contends that LPSCO's  
16          purchased power expense doesn't fluctuate enough to justify a PPAM. Second,  
17          RUCO argues that purchased power does not constitute a large enough portion of  
18          LPSCO's operating expenses to justify a PPAM. Third, RUCO claims that  
19          authorizing a PPAM creates a disincentive for LPSCO to operate efficiently.  
20          Fourth and finally, RUCO maintains that prior Commission precedent prevents a  
21          PPAM from being authorized.

22

23

24

25

---

<sup>35</sup> Carlson Dt. at 38:19-24.

26       <sup>36</sup> Mease Dt. at 47-49.

1 **Q. HOW DOES THE COMPANY RESPOND TO RUCO'S FIRST**  
2 **ARGUMENTS THAT LPSCO'S PURCHASED POWER EXPENSE**  
3 **DOESN'T FLUCTUATE ENOUGH AND ISN'T LARGE ENOUGH TO**  
4 **SUPPORT A PPAM?**

5 A. How much fluctuation is necessary? How big a portion of overall expenses must  
6 the expense be? In the absence of any clear standards, or any standards  
7 whatsoever, RUCO is merely asking the Commission to act arbitrarily. The point  
8 should be that APS is LPSCO's sole power provider and we can't control what  
9 prices APS charges. Actually, the Commission decides that.

10 **Q. WILL THE COMPANY OPERATE LESS EFFICIENTLY IF A PPAM IS**  
11 **AUTHORIZED?**

12 A. No, this argument is a ridiculous stretch at best. Real businesses do not just spend  
13 money that they do not have to spend. Besides, RUCO missed the point of this  
14 PPAM which, as I explained above, will only adjust for changes in price,  
15 not quantity. As an example, if the price per power kilowatt hour increases from  
16 \$0.10 to \$0.11, the one penny differential would be multiplied by the number of  
17 kilowatt hours in the test year and that would be the proposed adjustment.  
18 Therefore, even following RUCO's logic, there is no incentive created by the  
19 proposed PPAM to use more power than actually necessary.

20 **Q. DOES COMMISSION PRECEDENT PREVENT APPROVAL OF A PPAM?**

21 A. I will leave the legal arguments to the lawyers. I would note, however, that electric  
22 utilities have PPAMs now and water companies used to have them routinely  
23 approved by the Commission. That suggests to me there is no legal bar to such  
24 adjusters.

1 Q. SO WHY IS AUTHORIZING A PPAM IN THE PUBLIC INTEREST?

2 A. Again, rate gradualism. Mostly importantly, customers want regulatory outcomes  
3 that support their daily lifestyle. Customers want smaller, more frequent  
4 increases.<sup>37</sup>

5 C. Policy Proposal – Balanced Rate Design

6 Q. WHAT IS THE COMPANY REQUEST REGARDING RATE DESIGN?

7 A. The Company requests a rate design that strikes a fair balance between water  
8 conservation and revenue stability. Mr. Bourassa discusses the details of  
9 LPSCO's, Staff's, and RUCO's proposal. In general, Staff's and RUCO's  
10 proposals risk too much revenue instability. As I discussed, we are all for  
11 conservation, but enough time has passed to know there is an impact and we need  
12 to pay attention to the details of the rate design to avoid unnecessarily burdening  
13 the utility with the lion's share of the cost of conservation.

14 V. STAFF ENGINEERING RECOMMENDATIONS FROM MS. HAINS

15 Q. WHAT RECOMMENDATIONS DOES STAFF MAKE FOR LPSCO'S  
16 WATER DIVISION?

17 A. Staff makes six recommendations on page 6 of Ms. Hains testimony. LPSCO has  
18 no objections to those recommendations.

19 Q. WHAT RECOMMENDATIONS DOES STAFF MAKE FOR LPSCO'S  
20 WASTEWATER DIVISION?

21 A. Staff makes five recommendations on page 8 of Ms. Hains testimony. LPSCO has  
22 no objections to those recommendations.

23  
24  
25 

---

<sup>37</sup> See LPSCO Customer Service Survey, attached as Exhibit CK-RB12. Over 85% of customers stated  
26 their preference for smaller, more frequent rate increases.

1 **VI. STAFF RECOMMENDATIONS REGARDING INCOME TAXES**

2 **Q. WHAT RECOMMENDATIONS DOES STAFF MAKE REGARDING**  
3 **INCOME TAXES?**

4 A. Staff recommends that the Company present a plan to deal with potential deferred  
5 income taxes within 60 days of a Commission decision in the instant case.<sup>38</sup>

6 **Q. WHAT IS THE COMPANY'S RESPONSE TO THIS**  
7 **RECOMMENDATION?**

8 A. It is confusing at best. According to Mr. Carlson's testimony (at p. 32, ls. 14-22),  
9 House Bill 2001 was signed by the Governor on February 17, 2011. Even though  
10 this bill was signed over two years ago, we are the first company that I am aware of  
11 that was signaled out as needing to file a plan to address this issue. The  
12 Commission has had dozens of rate cases since House Bill 2001 was signed and I  
13 can't find any similar requirements to what Mr. Carlson requests imposed on  
14 another utility.

15 **Q. HOW SHOULD THE COMMISSION ADDRESS THIS ISSUE?**

16 A. The Company recommends rejecting Staff's request because Staff has failed to  
17 explain why Liberty's rate case warrants special treatment.

18 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A. Yes.  
20  
21  
22  
23  
24  
25

---

26 <sup>38</sup> Carlson Dt. at 34:15-18.

# **EXHIBIT CK-RB1**

**In Historic Vote, ACC Approves a DSIC Mechanism (Pg. 2)**

- After 14 years, Arizona stopped considering whether or not to adopt Distribution System Improvement Charges (DSICs); and approved on a 4-1 vote Arizona Water Company's request for a DSIC – called the "Systems Improvement Benefit Mechanism" or "SIB."

**Revenue Requirement, Not a Requirement Really (Pg. 7)**

- We look at 45 rate decisions (2007-2011) to see whether or not the "revenue requirement" set by the ACC was actually earned.

**A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources (Pg. 8)**

- If the IRS tax brackets hadn't been adjusted for inflation in 20 years, what tax bracket would you be in? It's time for the ACC to adjust Rule 14-2-103(A)(3)(q) for inflation.

**AIAC turns to CIAC, and Rate Base Evaporates (Pg. 11)**

- AIAC only gets refunded if customer growth occurs – what happens when it doesn't? And can't we reduce the utility company's risk?

Regulatory Reports Staff, Backgrounds, and emails, Pg. 20

**PAST ISSUES CAN BE FOUND ON OUR WEBSITE AT**  
**[www.arizonaregulatoryreports.com](http://www.arizonaregulatoryreports.com)**

## Revenue Requirement (Not a Requirement Really)

The appropriate rate design is often a matter of high dispute in water utility rate cases. Put simply, the companies often want to include more of the increase in the monthly minimum charge; while the Staff wants to put more of the increase on the commodity rates – and in many cases on the highest tiers of the commodity rates. Companies have long argued that assigning too little of the increase to the monthly minimum charge and/or the first commodity tier results in the revenue requirement being missed. Some research has revealed conclusive proof that this argument has merit.

**We looked at 45 water utility rate cases completed since December of 2007 and compared the authorized revenue requirement to the actual revenue these utilities received in subsequent years.<sup>17</sup>**

- Of the 21 rate cases we looked at from December 2007 through December 2009:
  - 81% did not achieve their authorized revenue requirement in 2010,
  - 86% did not achieve it in 2011, and
  - 76% did not achieve it in 2012.
- Of the 15 rate cases we looked at from 2010:
  - 87% did not achieve their authorized revenue requirement in 2011, and
  - 80% did not achieve it in 2012.
- Of the 9 cases we looked at from 2011:
  - 67% of the companies did not achieve their authorized revenue requirement in 2012.

Many of the companies that did achieve their revenue requirement benefitted from unusual circumstances such as growth in customer counts or special surcharges.

The evidence is clear: most water utilities do not collect their authorized revenue requirement in the years following a rate case. The rate design is at least partially responsible for this.

### How Much Income is Enough?

Another issue faced by small water utilities is uncertainty over how the ACC Staff will determine the appropriate income. We have written before about how the Staff sometimes applies an operating margin to low rate base utilities and sometimes uses a (“nominal”) cash flow analysis instead.<sup>18</sup> We’ve also written before about the inconsistent results that come from applying a consistent operating margin.<sup>19</sup> For small utilities that have positive but low rate bases, applying a consistent rate of return to that rate base can lead to widely varying income results depending on the size of the rate base. For zero and negative rate base utilities there is currently no policy, the applicant doesn’t know whether the Staff will impose an operating margin or some sort of cash flow analysis. And for low rate base utility there is no policy on when the rate base is too small to use a rate of return.

---

<sup>17</sup> We started with 60 rate cases decided over that period and threw out 15 either because it was unclear what the authorized revenue requirement was or because information on realized revenue was not available.

<sup>18</sup> See issue 12-1, January 2012.

<sup>19</sup> See Issue 11-3, June 15, 2011.

The California Public Utility Commission (CPUC) has adopted a policy wherein for small water utilities a (generous) operating margin and a rate of return on rate base are calculated and the CPUC uses whichever one is *higher* to set rates.

The CPUC also specifically designates a portion of the income generated by the utility to compensation for the owner and a portion to retained earnings for reinvestment. (This contrasts with Arizona where essentially all of the income generated by a utility can be assigned to pay debt service on a WIFA loan.) Such policies would be very helpful in Arizona. But in the meantime we urge the Commission to simply ask the Staff what level of income the water utility owner will receive under the proposed rates before voting to adopt them. We know of several situations in which the answer is that the owner would receive only a few thousand dollars per year.

### **A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources**

The current utility classification scheme (codified in R14-2-103(A)(3)(q)) was last updated over twenty years ago.<sup>20</sup> That scheme classifies utilities based on their annual Arizona jurisdictional revenue. For water and wastewater utilities the classes are as follows:

**TABLE ONE – Existing Classification Table for Water, Wastewater Utilities**

Annual Revenue		
Class	From	To
A	\$5,000,000	and up
B	\$1,000,000	\$5,000,000
C	\$250,000	\$999,000
D	\$50,000	\$249,999
E	\$-	\$50,000
Per Rule 14-2-103(A)(3)(q)		

<sup>20</sup> The current version of R14-2-103 became effective August 31, 1992.

# **EXHIBIT CK-RB2**

Water

OPERATING INCOME ADJUSTMENT NO. 13  
 APUC COST ALLOCATIONS

Line No.	Description	[A] Company Requested Total APUC Cost Pool	[B] Allocation Factor From APUC To Liberty Utilities	[C] APUC Allocation To Liberty Utilities	LPSCO Column		[D] Allocation Factor From Liberty Utilities To Liberty Utilities South	Formula Revised		[F] Allocation Factor From Liberty Utilities To LPSCO Water	Allocation Factor From Liberty Utilities To LPSCO Wastewater		[G] Allocation Factor From Liberty Utilities To LPSCO Wastewater	Liberty Utilities South Allocation To LPSCO Wastewater		[I] Liberty Utilities South Allocation To LPSCO Wastewater	[J] RUCO Recommended Allocations Factors Per Decision 72059	[K] RUCO Recommended Allocations LPSCO Water
					Water Annualization -32%	Liberty Utilities Allocation To LPSCO Water		Liberty Utilities Allocation To LPSCO Water	Liberty Utilities Allocation To LPSCO Water		Liberty Utilities Allocation To LPSCO Water	Liberty Utilities Allocation To LPSCO Water						
1	Audit	\$ 1,561,911	51.8%	\$ 808,566	\$ 552,682		22.26%	\$ 123,009	28.74%	28.74%	\$ 35,347	28.87%	28.87%	\$ 33,050	28.87%	\$ 35,347	100%	\$ 35,347
2	Tax	1,169,300	51.8%	605,321	413,757		22.26%	\$ 92,089	28.74%	28.74%	28,462	28.87%	28.87%	24,742	28.87%	28,462	100%	28,462
3	Legal	635,190	51.8%	328,824	224,762		22.26%	\$ 50,025	28.74%	28.74%	14,375	28.87%	28.87%	13,441	28.87%	14,375	100%	14,375
4	Professional Services	680,395	51.8%	352,225	240,758		22.26%	\$ 53,585	28.74%	28.74%	15,388	28.87%	28.87%	14,397	28.87%	15,388	0%	-
5	Unitholder Communications	700,793	51.8%	362,785	247,978		22.26%	\$ 55,191	28.74%	28.74%	15,859	28.87%	28.87%	14,829	28.87%	15,859	0%	-
6	Trustee / Director Fees	378,154	51.8%	195,762	133,810		22.26%	\$ 29,782	28.74%	28.74%	8,558	28.87%	28.87%	8,002	28.87%	8,558	0%	-
7	Computer Supplies/Repairs	51,781	51.8%	26,786	18,318		22.26%	\$ 4,076	28.74%	28.74%	1,171	28.87%	28.87%	1,085	28.87%	1,171	100%	1,171
8	Office Expenses	98,210	51.8%	50,841	34,752		22.26%	\$ 7,735	28.74%	28.74%	2,223	28.87%	28.87%	2,078	28.87%	2,223	100%	2,223
9	Employee Stock Purchase Plan	4,270	51.8%	2,210	1,511		22.26%	\$ 336	28.74%	28.74%	97	28.87%	28.87%	90	28.87%	336	50%	1,649
10	Board of Director's Insurance	145,728	51.8%	75,440	51,566		22.26%	\$ 11,477	28.74%	28.74%	3,268	28.87%	28.87%	3,084	28.87%	3,268	0%	-
11	Escrow & Transfer Agent Fees	75,000	51.8%	38,828	26,539		22.26%	\$ 5,907	28.74%	28.74%	1,697	28.87%	28.87%	1,587	28.87%	1,697	100%	1,728
12	Training	76,343	51.8%	39,521	27,014		22.26%	\$ 6,012	28.74%	28.74%	1,728	28.87%	28.87%	1,615	28.87%	1,728	0%	-
13	Stock Option expense	1,376,013	51.8%	712,331	486,902		22.26%	\$ 108,368	28.74%	28.74%	31,140	28.87%	28.87%	28,117	28.87%	31,140	0%	-
14	Recruiting	54,095	51.8%	28,004	19,142		22.26%	\$ 4,260	28.74%	28.74%	1,224	28.87%	28.87%	1,145	28.87%	1,224	100%	1,224
15	Meals and Entertainment	2,315	51.8%	1,188	819		22.26%	\$ 182	28.74%	28.74%	52	28.87%	28.87%	49	28.87%	52	50%	26
16	Rent	84,861	51.8%	43,931	30,028		22.26%	\$ 6,683	28.74%	28.74%	1,920	28.87%	28.87%	1,796	28.87%	1,920	100%	1,920
17	Communication	78,982	51.8%	40,887	27,848		22.26%	\$ 6,220	28.74%	28.74%	1,787	28.87%	28.87%	1,671	28.87%	1,787	100%	1,787
18	Dues and Memberships	47,155	51.8%	24,411	16,686		22.26%	\$ 3,714	28.74%	28.74%	1,067	28.87%	28.87%	998	28.87%	1,067	0%	-
19	Licenses/Fees & Permits	384,904	51.8%	199,256	136,188		22.26%	\$ 30,313	28.74%	28.74%	8,711	28.87%	28.87%	8,145	28.87%	8,711	100%	8,711
20	Net Other Admin Costs	14,274	51.8%	7,369	5,051		22.26%	\$ 1,124	28.74%	28.74%	323	28.87%	28.87%	302	28.87%	323	100%	323
21	Variance Due to Company's Monthly Allocation Factoring							\$ 1,124			10,321			28,092		10,321	51%	5,232
22	Total APUC Allocations Per RUCO	\$ 7,619,653		\$ 3,944,525				\$ 600,088			\$ 182,757			\$ 187,324		\$ 182,757		\$ 102,177
23	Company Water Division's APUC Cost Allocation Requested																	179,491
24	Company Wastewater Division's APUC Cost Allocation Requested																	
25	RUCO Recommended Water and Wastewater Division's APUC Cost Allocation Adjustment																	\$ (77,314)

Note 1:

Variances by Company Per Responses to RUCO DR 1.08 and Staff 5.2  
 RUCO Allowance Factor for the Variances Identified by Company

References:

Column (A) - Company response to Staff DR JMM - 10.1(e) confirmed the accruals in that Column were true-up to Actual Expenses for this rate case.

### OPERATING INCOME ADJUSTMENT NO. 13 APUC COST ALLOCATIONS

[illegible]

**Wastewater**  
\$ 36,413 50%

**References:**  
Column [A] - Company response to Staff DR JMM - 10.1(e) confirmed the accruals in that Column were true-up to Actual Expenses for this rate case.

# **EXHIBIT CK-RB3**

**LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES  
DOCKET NOS. W-01427A-13-0043 AND SW-01428A-13-0042  
RESPONSE TO STAFF'S FIFTH SET OF DATA REQUESTS**

June 3, 2013

Response provided by: Christopher D. Krygier

Title: Utility Rates and Regulatory Manager

Company: Litchfield Park Service Company dba Liberty Utilities

Address: 12725 W. Indian School Road, Suite D101  
Avondale, AZ 85392

Company Response Number: JMM – 5.2

**Q. Corporate Expense Tie-Out** – In the prior rate case, the Company provided an excel spreadsheet in response to Staff data request JMM 5-5, entitled Corporate Expense Buildups.

For illustrative purposes the summary sheet contained the following information, a budget to actual expense for the corporate costs, and a budget to actual expense for LPSCO. The spread sheet also contained the costs pools that are being allocated from the corporate entity which are Audit, Tax Services, Legal, Other Professional Services, Management Fees, Unit Holder Communications, Trustee Fees, Escrow & Transfer Agent Fees, Rent, Licenses/Fees & Permits, Office Expenses, and Depreciation to LPSCO as shown below:

**Corporate Cost Build Up**

	Corporate Costs		LPSCO	
	Total Budget	Total Actual	Total Budget	Total Actual
	2008	Oct07-Sep08	2008	Oct07-Sep08
Audit	507,000	\$984,476	66,531	129,187
Tax Services	265,000	\$383,940	34,774	50,382
Legal	300,000	\$722,428	39,367	94,800
Other Professional Services	455,000	\$448,761	59,707	83,492
Management Fee - Total	636,619	\$636,255	83,540	36,425
Unit Holder Communications	314,100	\$277,582	41,218	29,532
Trustee Fees	204,000	\$225,052	26,770	29,532
Escrow & Transfer Agent Fees	75,000	\$63,843	9,842	8,378

Rent	430,739	\$295,887	56,523	38,828
Licenses/Fees & Permits	305,000	\$128,206	40,023	16,824
Office Expenses	254,000	\$761,628	33,331	99,944
Depreciation	204,242	\$194,727	26,801	25,553
<b>Total Admin Costs</b>	<b>3,950,700</b>	<b>\$5,122,785</b>	<b>518,427</b>	<b>\$642,877</b>

In addition, the spreadsheet also contained a tab which had a summary of transactions that tied to the various cost pools, as illustrated below:

TRX Date	Account Number String	Category	Natural	Document Number	Debit Amount	Credit Amount	Total
10/22/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	23868093	\$3,693.99	\$0.00	\$3,693.99
11/22/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24010094	\$4,173.49	\$0.00	\$4,173.49
11/28/2007	1140-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24803094	\$853.65	\$0.00	\$853.65
11/28/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24010094.1	\$0.00	\$236.24	(\$236.24)
12/24/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24154095	\$3,816.16	\$0.00	\$3,816.16
1/31/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	1257	\$3,623.19	\$0.00	\$3,623.19
2/28/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	2154	\$3,777.86	\$0.00	\$3,777.86
2/28/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	1932	\$200.00	\$0.00	\$200.00
3/27/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	4284	\$420.23	\$0.00	\$420.23
4/4/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	4436	\$4,157.05	\$0.00	\$4,157.05
4/17/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	4722	\$3,823.56	\$0.00	\$3,823.56
					\$15,644.6		
5/26/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	6738	8	\$0.00	\$15,644.68
5/26/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	6784	\$8.49	\$0.00	\$8.49
6/30/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	8007	\$4,037.65	\$0.00	\$4,037.65
7/14/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	7948	\$2,002.73	\$0.00	\$2,002.73
7/30/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	9359	\$406.72	\$0.00	\$406.72
7/31/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	10066	\$4,306.04	\$0.00	\$4,306.04
8/21/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	10572	\$3,837.21	\$0.00	\$3,837.21
9/17/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	12256	\$400.22	\$0.00	\$400.22
9/17/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	12023	\$3,787.54	\$0.00	\$3,787.54
9/30/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705		\$1,109.08	\$0.00	\$1,109.08
<b>Total Escrow &amp; Transfer Agent Fees</b>							<b>\$63,843.30</b>

The spreadsheet also had a tab showing the 4 factor allocation of corporate expenses to LPSCO.

The Company in the last rate case then provided Staff with all the invoices over \$5,000, and also stated that Staff could choose items under \$5,000 for sampling.

Staff is requesting that the same format be followed in this case.

- a. Therefore, please provide Staff with spreadsheets in excel format with formula intact that tie corporate allocations from the patent company to LPSCO, in a similar format that was used in the prior case.

#### RESPONSE:

Please see the attached file labeled “JMM 5-2 - (APUC Corporate Cost Build-Up)”. This file contains the Algonquin Power and Utilities Corporation (APUC) allocated administrative costs included in the Company’s test year operating expenses as adjusted (Adjustment No. 10 Water and Adjustment No. 8 Wastewater) to reflect cost savings to customers. Cost descriptions are discussed in the Cost Allocation Manual which is attached to this data request as “JMM 5-2 - (APUC Cost Allocation Manual)”. However, for purposes of providing additional information, enclosed below is additional detail regarding Unitholder Communications (also known as shareholder communications), Escrow and Transfer Agent Fees and Board of Directors Fees (also known as Trustee Fees..

#### Unitholder Communications

APUC, a publicly traded entity, must issue certain communications subject to the Toronto Stock Exchange’s (TSX) rules and regulations. Examples include 714<sup>1</sup> of the Toronto Stock Exchange Company Manual stating that “TSX may delist securities of a listed issuer that has failed to comply with TSX’s Timely Disclosure policy...” Additionally, Section 406 of the Toronto Stock Exchange Company Manual in part states “Companies who securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure...<sup>2</sup>”. Finally, the Canadian National Policy 51-201 *Disclosure Standards*<sup>3</sup> states in Section 4.5 that “Companies who do not comply with an exchange’s requirements could find themselves subject to an administrative proceeding before a provincial securities regulator.”

These requirements are no different than publicly traded companies on the New York Stock Exchange (NYSE) whose Listed Company Manual, Section 202.05 states “A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange.”<sup>4</sup>

#### Escrow and Transfer Agent Fees

---

<sup>1</sup> Please see the attached file labeled “JMM 5-2 - (TSEX Section 714 - timely disclosure requirements)”

<sup>2</sup> Please see the attached file labeled “JMM 5-2 - (TSEX Section 406 - timely disclosure requirements)”

<sup>3</sup> Please see the attached file labeled “JMM 5-2 - (National Policy 51-201)”

<sup>4</sup> Please see the attached file labeled “JMM 5-2 - (NYSE, Listed Company Manual, Section 2)”

TMX Policy 3-1, Section 7 requires that APUC maintain a transfer agent. In particular, Section 7.1<sup>5</sup> provides that “Each Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities.” Additionally, Section 7.2 requires that “While its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar...”

This requirement appears materially identical to the NYSE’s requirements in Section 6<sup>6</sup> of the Listed Company Manual: “The company must also maintain registrar facilities for all stock of the company listed on the Exchange.”

### Board of Directors Fees

The TSX’s Guide to Listing states the following “Management, including board of directors, should have adequate experience and technical expertise relevant to the company’s business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.”<sup>7</sup> The NYSE has a similar requirement in Section 303A.01 “Listed companies must have a majority of independent directors. Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest”<sup>8</sup>.

Additionally, as shown in the graph below<sup>9</sup>, APUC’s Board of Directors is much smaller than comparable boards of directors (taken from a recent RUCO cost of capital proxy group).<sup>10</sup>

---

<sup>5</sup> Please see the attached file labeled “JMM 5-2 - (TMX Policy 3-1)”

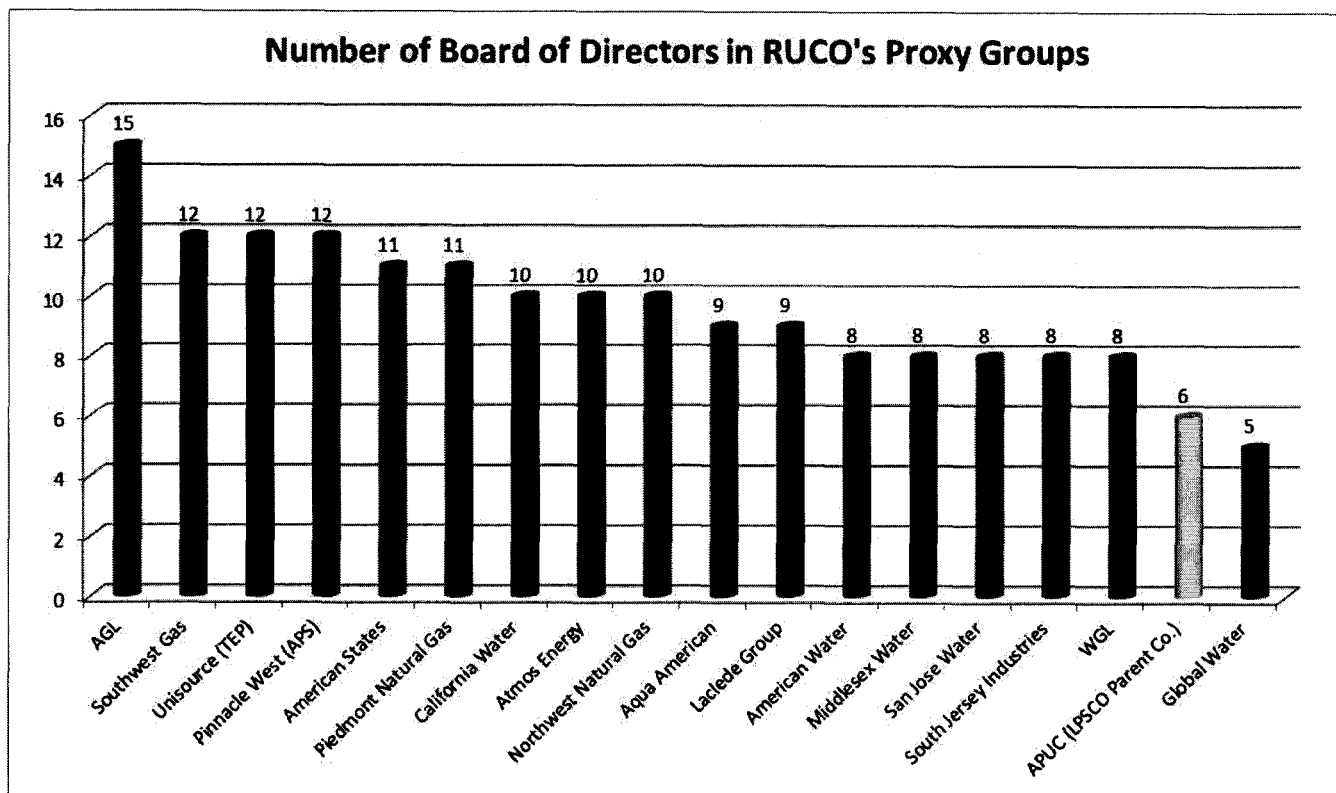
<sup>6</sup> Please see the attached file labeled “JMM 5-2 - (NYSE Section 6 (Agencies, Depositories, Trustees))”

<sup>7</sup> Please see the attached file labeled “JMM 5-2 - (TSEX A Capital Opportunity Guide to Listing)”, page 32 of the PDF.

<sup>8</sup> Please see the attached file labeled “JMM 5-2 - (NYSE Listing Requirements for Board of Directors)”

<sup>9</sup> Graph can be found in excel in the file labeled “JMM 5-2 - (Number of Board of Directors in RUCO proxy group (graph))”. The support can be found in each company’s SEC 14A filing which are included as attachments to this data request, see the 17 files containing the phrase “BOD fees”.

<sup>10</sup> Docket No. WS-02676A-12-0196



#### Corporation Cost Allocation - Monthly Close Process:

The following is a description of how the monthly close process regarding corporate cost allocations work.

At the end of month, the local accounting department based in Avondale closes the books for Liberty's water and wastewater utilities located in Arizona, Missouri, Texas and Illinois. This includes review and allocation (using the 4-factor allocation) from the corporate companies, Liberty Utilities and Algonquin Power and Utilities Corporation. Liberty and APUC send to the local accounting department, bills by department for services in the previous month. The accounting team reviews the bills to ensure that they are charged to the proper accounts. Once the bills are received and account coding reviewed, the accounting team 4-factors each bill via journal to the accounting books of each water and wastewater utility in Arizona, Missouri, Texas and Illinois. The accounting manager signs off on each allocation and then saves the documentation and stores in local files for future audit requests.

# **EXHIBIT CK-RB4**


[Back](#)
[Text only](#)
[Print](#)

Location: [TSX Company Manual](#) > [Part VII Halting of Trading, Suspension and Delisting of Securities](#) > [D. Delisting Criteria](#) > [\(4\) Failure To Comply With TSX Requirements & Policies](#)

#### (4) Failure To Comply With TSX Requirements & Policies

##### Listing Agreement

###### Sec. 713.

TSX may delist the securities of a listed issuer that fails to comply with its Listing Agreement or other agreements with TSX, or fails to comply with TSX requirements and policies. Examples of failure to comply with the Listing Agreement include, but are not limited to, failure to obtain the prior consent of TSX to issue additional equity securities; failure to obtain the consent of TSX before undergoing a material change in the business if the listed issuer is subject to [Section 501](#); and failure to comply with TSX's requirements for stock options and security based compensation arrangements.

##### Disclosure Policies

###### Sec. 714.

- TSX may delist the securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy (see [Sections 406 to 423.8](#) and [472 to 475](#)) or with disclosure requirements under any securities law to which the listed issuer is subject. In addition, TSX may delist the securities of a listed issuer that is engaged in the business of mineral exploration, development or production if such listed issuer has failed to comply with TSX's "Disclosure Standards for Companies Engaged in Mineral Exploration, Development & Production" (see [Appendix B](#)).

##### Payment of Fees or Charges

###### Sec. 715.

TSX may suspend from trading and delist the securities of a listed issuer that fails or refuses to pay, when due, any fee or charge payable by the company pursuant to Exchange requirements.

##### Management

###### Sec. 716.

TSX requires that each listed issuer must meet on an ongoing basis the management requirements relevant to its category of listing that are described in [Section 311](#) (for Industrial Issuers), [Section 316](#) (for Mining Issuers) and [Section 321](#) (for Oil & Gas Issuers). TSX may delist the securities of a listed issuer that has failed to meet such management requirements.

Upon receipt of a Form 3 (see [Section 424](#)) from a listed issuer, or upon notice of a new insider of a listed issuer, TSX will conduct a review of the new director, officer, trustee or insider with a view to determining the suitability of such individual or entity as an insider of the listed issuer. Upon the request of TSX, listed issuers will submit a Personal Information Form (Form 4—[Appendix H](#)) for any person so requested. TSX may delist the securities of a listed issuer in the event TSX determines that such individual or entity is not suitable as an insider of the listed issuer.

[Contact Us](#) | [Site Map](#) | [Careers](#) | [Advertise](#) | [Terms of Use](#) | [Privacy Policy](#)

© TSX Inc., a wholly owned subsidiary of TMX Group Limited  
 For full optimization and view of this web site, users are recommended to set their screen display at 1024x768 pixels.  
 TMX Group Limited and its affiliates do not endorse or recommend any securities issued by any companies identified on, or linked through, this site. Please seek professional advice to evaluate specific securities or other content on this site. All content (including any links to third party sites) is provided for informational purposes only (and not for trading purposes), and is not intended to provide legal, accounting, tax, investment, financial or other advice and should not be relied upon for such advice. The views, opinions and advice of any third party reflect those of the individual authors and are not endorsed by TMX Group Limited or its affiliates. TMX Group Limited and its affiliates have not prepared, reviewed or updated the content of third parties on this site or the content of any third party sites, and assume no responsibility for such information.

# **EXHIBIT CK-RB5**

Text only

Print

Print Manager

Link

Location: [TSX Company Manual](#) > [Part IV Maintaining a Listing — General Requirements](#) > [B. Timely Disclosure](#) > [Introduction](#) > [Sec. 406.](#)

<< [Introduction](#)[Material Information](#) >>**Sec. 406.**

It is a cornerstone policy of the Exchange that all persons investing in securities listed on the Exchange have equal access to information that may affect their investment decisions. Public confidence in the integrity of the Exchange as a securities market requires timely disclosure of material information concerning the business and affairs of companies listed on the Exchange, thereby placing all participants in the market on an equal footing.

- The timely disclosure policy of the Exchange is the primary timely disclosure standard for all TSX listed issuers. National Policy 51-201 *Disclosure Standards* of the CSA, "Disclosure Standards", assists issuers in meeting their legislative disclosure requirements. While the legislative and Exchange timely disclosure requirements differ somewhat, the CSA clearly states in National Policy 51-201 *Disclosure Standards* that they expect listed issuers to comply with the requirements of the Exchange.

To minimize the number of authorities that must be consulted in a particular matter, in the case of securities listed on the Exchange, the Exchange is the relevant contact. The issuer may, of course, consult with the government securities administrator of the particular jurisdiction. In the case of securities listed on more than one stock market, the issuer should deal with each market.

- The requirements of the Exchange and National Policy 51-201 *Disclosure Standards* are in addition to any applicable statutory requirements. The Exchange enforces its own policy. Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure set out in section 75 of the OSA and the Regulation under the Act. Reference should also be made to National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, National Instrument 55-102 *System for Electronic Disclosure by Insiders*, and National Instrument 62-103 *The Early Warning System and Related Take-Over bid and Insider Reporting Issues*.

In addition to the foregoing requirements, companies whose securities are listed on the Exchange and who engage in mineral exploration, development and/or production, must follow the "Disclosure Standards for Companies Engaged in Mineral Exploration, Development and Production" as outlined in [Appendix B](#) of this Manual for both their timely and continuous disclosure.

The Market Surveillance Division monitors the timely disclosure policy on behalf of the Exchange.

<< [Introduction](#)[Material Information](#) >>

© TSX Inc. All rights reserved. Do not copy, distribute, sell or modify this document without TSX Inc.'s prior written consent. TSX materials, including manuals, trading rules, policies and forms, are reproduced by Complanet with the permission of TSX Inc. and TSX Venture Exchange Inc. under a non-exclusive license. Neither TSX Inc. nor any of its affiliated companies guarantees the accuracy, adequacy, completeness or availability of any information and nor shall they be responsible for any errors or omissions or otherwise.

[Contact Us](#) | [Site Map](#) | [Careers](#) | [Advertise](#) | [Terms of Use](#) | [Privacy Policy](#)

© TSX Inc., a wholly owned subsidiary of TMX Group Limited

For full optimization and view of this web site, users are recommended to set their screen display at 1024x768 pixels. TMX Group Limited and its affiliates do not endorse or recommend any securities issued by any companies identified on, or linked through, this site. Please seek professional advice to evaluate specific securities or other content on this site. All content (including any links to third party sites) is provided for informational purposes only (and not for trading purposes), and is not intended to provide legal, accounting, tax, investment, financial or other advice and should not be relied upon for such advice. The views, opinions and advice of any third party reflect those of the individual authors and are not endorsed by TMX Group Limited or its affiliates. TMX Group Limited and its affiliates have not prepared, reviewed or updated the content of third parties on this site or the content of any third party sites, and assume no responsibility for such information.

# **EXHIBIT CK-RB6**

## **NATIONAL POLICY 51-201 DISCLOSURE STANDARDS**

### **TABLE OF CONTENTS**

#### **PART I - INTRODUCTION**

- 1.1     *Purpose***

#### **PART II - TIMELY DISCLOSURE**

- 2.1     *Timely Disclosure***
- 2.2     *Confidentiality***
- 2.3     *Maintaining Confidentiality***

#### **PART III - OVERVIEW OF THE STATUTORY PROHIBITIONS AGAINST SELECTIVE DISCLOSURE**

- 3.1     *Tipping and Insider Trading***
- 3.2     *Persons Subject to Tipping Provisions***
- 3.3     *Necessary Course of Business***
- 3.4     *Necessary Course of Business Disclosures and Confidentiality***
- 3.5     *Generally Disclosed***
- 3.6     *Unintentional Disclosure***
- 3.7     *Administrative Proceedings***

#### **PART IV - MATERIALITY**

- 4.1     *Materiality Standard***
- 4.2     *Materiality Determinations***
- 4.3     *Examples of Potentially Material Information***
- 4.4     *External Political, Economic and Social Developments***
- 4.5     *Exchange Policies***

#### **PART V - RISKS ASSOCIATED WITH CERTAIN DISCLOSURES**

- 5.1     *Private Briefings with Analysts, Institutional Investors and other Market Professionals***
- 5.2     *Analyst Reports***
- 5.3     *Confidentiality Agreements with Analysts***
- 5.4     *Analysts as "Tippees"***
- 5.5     *Earnings Guidance***
- 5.6     *Application of National Policy Statement 48***
- 5.7     *Selective Disclosure Violations Can Occur in a Variety of Settings***

## **PART VI - BEST DISCLOSURE PRACTICES**

- 6.1    *General***
- 6.2    *Establishing a Corporate Disclosure Policy***
- 6.3    *Overseeing and Coordinating Disclosure***
- 6.4    *Board and Audit Committee Review of Certain Disclosure***
- 6.5    *Authorizing Company Spokespersons***
- 6.6    *Recommended Disclosure Model***
- 6.7    *Analyst Conference Calls and Industry Conferences***
- 6.8    *Analyst Reports***
- 6.9    *Updating Forward-Looking Information***
- 6.10   *Quiet Periods***
- 6.11   *Insider Trading Policies and Blackout Periods***
- 6.12   *Electronic Communications***
- 6.13   *Chat Rooms, Bulletin Boards and e-mails***
- 6.14   *Handling Rumours***

**4.4 External Political, Economic and Social Developments:** Companies are not generally required to interpret the impact of external political, economic and social developments on their affairs. However, if an external development will have or has had a direct effect on the business and affairs of a company that is both material and uncharacteristic of the effect generally experienced by other companies engaged in the same business or industry, the company is urged to explain, where practical, the particular impact on them. For example, a change in government policy that affects most companies in a particular industry does not require an announcement, but if it affects only one or a few companies in a material way, such companies should make an announcement.

**4.5 Exchange Policies:** (1) The Toronto Stock Exchange Inc. (the "TSX") and the TSX Venture Exchange Inc. ("TSX Venture") each have adopted timely disclosure policy statements which include many examples of the types of events or information which may be material. Companies should also refer to the guidance provided in these policies when trying to assess the materiality of a particular fact, change or piece of information.

- (2) The TSX and TSX Venture policies require the timely disclosure of "material information". Material information includes both material facts and material changes relating to the business and affairs of a company. The timely disclosure obligations in the exchanges' policies exceed those found in securities legislation. It is not uncommon, or inappropriate, for exchanges to impose requirements on their listed companies which go beyond those imposed by securities legislation.<sup>31</sup> We expect listed companies to comply with the requirements of the exchange they are listed on. Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator.<sup>32</sup>

## **PART V - RISKS ASSOCIATED WITH CERTAIN DISCLOSURES**

**5.1 Private Briefings with Analysts, Institutional Investors and other Market Professionals:** (1) The role that analysts play in seeking out information, analyzing and interpreting it and making recommendations can contribute to a more efficient marketplace. Companies should be sensitive though to the risks involved in private

<sup>31</sup> For example, securities legislation provides that a recognized stock exchange may impose additional requirements within its jurisdiction.

<sup>32</sup> See *In the Matter of Air Canada*, *supra*, note 16. In this case, the parties to the settlement agreed that by disclosing earnings information to 13 analysts and not generally disclosing the information, the company failed to comply with the provisions of the TSX Company Manual and thereby acted contrary to the public interest. In the Excerpt from the Settlement Hearing Containing the Oral Reasons for Decision, the Ontario Securities Commission said, "[w]e feel that it will help foster confidence in the financial markets to know that the law requires, and that good corporations will comply with the requirement for, full disclosure of all material information on a timely basis as required by ... the Toronto Stock Exchange's listing agreement and listing requirements."

**EXHIBIT CK-RB7**

The determination to impose restrictions is based on a careful inspection of the trading for the latest one week period, defined as the previous Friday through subsequent Thursday, matched against various criteria. Other factors, such as the capitalization turnover, the ratio of last year's average weekly volume to the volume for the period considered, arbitrage, stop order bans, short position, earnings and recent corporate news are also reviewed.

The restriction itself is aimed primarily at eliminating the extension of credit to those who buy a security and sell it the same day seeking a short term profit. Such customers must have the full purchase value in the account prior to the entry of an order. Concomitantly, a broader requirement is usually imposed on all other margin customers in that they must put up the full purchase price within five business days, rather than only the percentage required by the Federal Reserve Board. Cash customers, of course, must in all instances put up 100% of the cost in seven days.

## **202.05 Timely Disclosure of Material News Developments**

A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange.

A listed company should also act promptly to dispel unfounded rumors which result in unusual market activity or price variations.

The issuer of income deposit securities traded as a unit shall publicize any change in the terms of the unit, such as changes to the terms and conditions of any of the components (including changes with respect to any original issue discount or other significant tax attributes of any component), or to the ratio of the components within the unit. Such publication shall be made as soon as practicable in relation to the effective date of the change, and should otherwise be made in accordance with the procedures specified in Section 202.06 below. In addition, the issuer must provide information regarding the terms and conditions of the components of the unit (including information with respect to any original issue discount or other significant tax attributes of any component), and the ratio of the components comprising the unit on its website.

## **202.06 Procedure for Public Release of Information**

### **(A) Immediate Release Policy**

Information required to be released quickly to the public under Section 202.05 above should be disclosed by means of any Regulation FD compliant method (or combination of methods). While foreign private issuers are not required to comply with Regulation FD, foreign private issuers must comply with the timely alert policy set forth in Section 202.05 and may do so by any method (or combination of methods) that would constitute compliance with Regulation FD for a domestic U.S. issuer. While not requiring them to do so, the Exchange encourages listed companies to comply with the immediate release policy by issuing press releases.

The spirit of the immediate release policy is not considered to be violated on weekends where a "Hold for Sunday or Monday A.M.'s" is used to obtain a broad public release of the news. This procedure facilitates the combination of a press

**EXHIBIT CK-RB8**



Toronto Stock  
Exchange

TSX Venture  
Exchange

# A Capital Opportunity

Guide to Listing

## Sector Profiles

LISTING REQUIREMENTS FOR INDUSTRIAL, TECHNOLOGY,  
RESEARCH & DEVELOPMENT AND REAL ESTATE COMPANIES

Initial Listing Requirements	TSX Venture Tier 1 Industrial / Technology / Life Sciences	TSX Venture Tier 2 Industrial / Technology / Life Sciences	TSX Venture Tier 1 Real Estate or Investment	TSX Venture Tier 2 Real Estate or Investment
<b>Net Tangible Assets, Revenue or Arm's Length Financing (as applicable)</b>	\$5,000,000 net tangible assets or \$5,000,000 revenue  If no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months	\$750,000 net tangible assets or \$500,000 in revenue or \$2,000,000 Arm's Length Financing  If no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months	Real Estate: \$5,000,000 net tangible assets Investment: \$10,000,000 net tangible assets	\$2,000,000 net tangible assets or \$3,000,000 Arm's Length Financing
<b>Adequate Working Capital and Capital Structure</b>	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 mo. following listing. \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 mo. following listing. \$100,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 mo. following listing. \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 mo. following listing. \$100,000 unallocated funds
<b>Property</b>	Issuer has Significant Interest in business or primary asset used to carry on business		Real Estate: Issuer has Significant Interest in real property Investment: no requirement	
<b>Prior Expenditures and Work Program</b>	History of operations or validation of business		Real Estate: no requirement Investment: disclosed investment policy	Real Estate: no requirement Investment: (i) disclosed investment policy and (ii) 50% of available funds must be allocated to at least 2 specific investments
<b>Management and Board of Directors</b>	Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors			
<b>Distribution, Market Capitalization and Public Float</b>	Public float of 1,000,000 shares, 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares, 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 1,000,000 shares, 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares, 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders
<b>Sponsorship</b>	Sponsor Report may be required			

The listing requirements above must be met at the time of listing. Any funds raised or transactions closing concurrent with listing contribute to the company meeting the listing requirements.

- (1) Generally includes companies engaged in hardware, software, telecommunications, data communications, information technology and new technologies that are not currently profitable or able to forecast profitability.
- (2) Applicants should file a complete set of forecast financial statements covering the current and/or next fiscal year (on a quarterly basis). Forecasts must be accompanied by an auditor's opinion that the forecast complies with the CICA Auditing Standards for future-oriented financial information. Applicants should have at least six months of operating history.
- (3) Under certain circumstances, deferred development charges or other intangible assets can be included in net tangible asset calculations.
- (4) Companies with less than C\$2 million in net tangible assets may qualify for listing if the earnings and cash flow requirements for senior companies are met.
- (5) "G&A" means general and administration expenses.

# **EXHIBIT CK-RB9**

members of the compensation committee continue to be independent, may remain a member of the compensation committee until the earlier of the next annual shareholders' meeting of the listed company or one year from the occurrence of the event that caused the member to be no longer independent.

#### **Disclosure Requirements**

If a listed company makes a required Section 303A disclosure in its annual proxy statement, or if the company does not file an annual proxy statement, in its annual report filed with the SEC, it may incorporate such disclosure by reference from another document that is filed with the SEC to the extent permitted by applicable SEC rules. If a listed company is not a company required to file a Form 10-K, then any provision in this Section 303A permitting a company to make a required disclosure in its annual report on Form 10-K filed with the SEC shall be interpreted to mean the annual periodic disclosure form that the listed company does file with the SEC. For example, for a closed-end management investment company, the appropriate form would be the annual Form N-CSR.

**Amended:** November 25, 2009 (NYSE-2009-89); January 11, 2013 (NYSE-2012-49).

### **303A.01 Independent Directors**

Listed companies must have a majority of independent directors.

*Commentary:* Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest.

**Amended:** November 25, 2009 (NYSE-2009-89).

### **303A.02 Independence Tests**

*The following is the operative text of Section 303A.02 effective through June 30, 2013:*

In order to tighten the definition of "independent director" for purposes of these standards:

(a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).

*Commentary:* It is not possible to anticipate, or explicitly to provide for, all circumstances that might signal potential conflicts of interest, or that might bear on the materiality of a director's relationship to a listed company (references to "listed company" would include any parent or subsidiary in a consolidated group with the listed company). Accordingly, it is best that boards making "independence" determinations broadly consider all relevant facts and circumstances. In particular, when assessing the materiality of a director's relationship with the listed company, the board should consider the issue not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable

# **EXHIBIT CK-RB10**

## **DIRECTORS, OFFICERS, OTHER INSIDERS & PERSONNEL AND CORPORATE GOVERNANCE**

### **Scope of Policy**

This Policy describes the qualifications that Directors, Officers and other Insiders, as well as certain personnel, of an Issuer must meet in order for the Issuer to be listed and remain listed on the Exchange, as well as corporate governance standards and policies required to be implemented by all Issuers. This Policy is not an exhaustive statement of corporate governance requirements applicable to Issuers. Nothing in this Policy limits the obligations and responsibilities imposed on Issuers by applicable corporate and Securities Laws. This Policy must be read in conjunction with applicable corporate and Securities Laws, including National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("NI 58-101"), National Policy 58-201 - *Corporate Governance Guidelines* ("NP 58-201") and National Instrument 52-110 - *Audit Committees* ("NI 52-110").

The main headings in this Policy are:

1. Definitions
2. Exchange Review of Directors, Officers, Other Insiders & Personnel
3. Initial Listing Requirements
4. Continued Listing Requirements
5. Qualifications and Duties of Directors and Officers
6. Disclosure of Insider Interests
7. Transfer Agent, Registrar and Escrow Agent
8. Security Certificates
9. Dissemination of Information and Insider Trading
10. Unacceptable Trading
11. Corporate Power and Authority
12. Auditors
13. Financial Statements, MD & A and Certification
14. Shareholders' Meetings and Proxies
15. Shareholder Rights Plans
16. Proceeds from Distributions
17. Issuers with Head Office Outside Canada
18. Assessment of a Significant Connection to Ontario
19. Corporate Governance Guidelines
20. Disclosure of Corporate Governance Practices
21. Audit Committees

- (a) every Director and Officer must disclose to the board of Directors either in writing or in person at the next Directors' meeting, the nature and extent of any material interest, directly or indirectly, that they have in any material contract or proposed contract with the Issuer. The Director or Officer must make this disclosure as soon as they become aware of the agreement or the intention of the Issuer to consider or enter into the proposed agreement;
- (b) the board of Directors must implement procedures so that each material agreement or proposed agreement between the Issuer and any Director or Officer, directly or indirectly, will be considered and approved by a majority of the disinterested Directors; and
- (c) the board of Directors must implement procedures to ensure proper public dissemination is made of the material interest of any Officer or Director of the Issuer in any material agreement or proposed agreement between the Issuer and that Director or Officer. The majority of disinterested Directors must consider the proper scope and nature of the disclosure.

## **7. Transfer Agent, Registrar and Escrow Agent**

- 7.1 Each Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities. As these records are complex for a publicly traded company, an Issuer must appoint a registrar and transfer agent to perform these services. In making such appointment, an Issuer must comply with the corporate laws of its incorporating or continuing jurisdiction, which may impose specific requirements for transfer agents and registrars.
- 7.2 While its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar with a principal office in one or more of Vancouver, British Columbia; Calgary, Alberta; Toronto, Ontario; Montreal, Quebec; or Halifax, Nova Scotia.
- 7.3 Except for those transfer agents that are listed in Appendix 3A, which have been previously approved as acceptable transfer agents by the Exchange, an applicant seeking to become an acceptable transfer agent under Appendix 3A must be a trust company in good standing under applicable legislation.
- 7.4 Each class of Listed Shares must be directly transferable at the Issuer's registrar and transfer agent.

# **EXHIBIT CK-RB11**

## Section 6 Agencies, Depositories, Trustees

### 601.00 Services to be Provided by Transfer Agents and Registrars

#### (A) For Listed Stock

A company having stock listed on the Exchange is required to maintain transfer facilities where:

- All stock of the company listed on the Exchange will be accepted for the purpose of transfer.

- All such stock which is convertible or called for redemption will be accepted for such conversion or redemption.

- All subscription rights issued to holders of listed stock of the company will be accepted for transfer or payment and securities subscribed for will be deliverable; and where all other rights or benefits pertaining to ownership of listed stock of the company, which may be issued, granted or allotted by the company, shall be accepted for transfer, exercise, payment and delivery.

- All dividends declared on stock of the company listed on the Exchange will be payable.

- The company must also maintain registrar facilities for all stock of the company listed on the Exchange. The registrar must be located in close proximity to the location at which the transfer of such securities is serviced directly.

#### (B) For Listed Bonds

The term "bond" includes any security evidencing indebtedness.

A company having bonds listed on the Exchange is required to maintain facilities where:

- All bonds of the company listed on the Exchange which may be registered as to principal and interest, or as to principal only, may be accepted for registration.

- All such bonds which are convertible or called for redemption will be accepted for such conversion or redemption.

- All rights or benefits pertaining to ownership of listed bonds of the company, and issued, granted or allotted by the company, will be accepted for transfer, payment or exercise.

- Principal of, and interest on, all bonds of the company listed on the Exchange will be payable.

Note: Transfer agents need not notify the Exchange of each issuance of shares, nor is it necessary for registrars to obtain a release from the Exchange before registering additional shares. It is necessary only for transfer agents to notify the Exchange of the number of shares outstanding at the end of each calendar

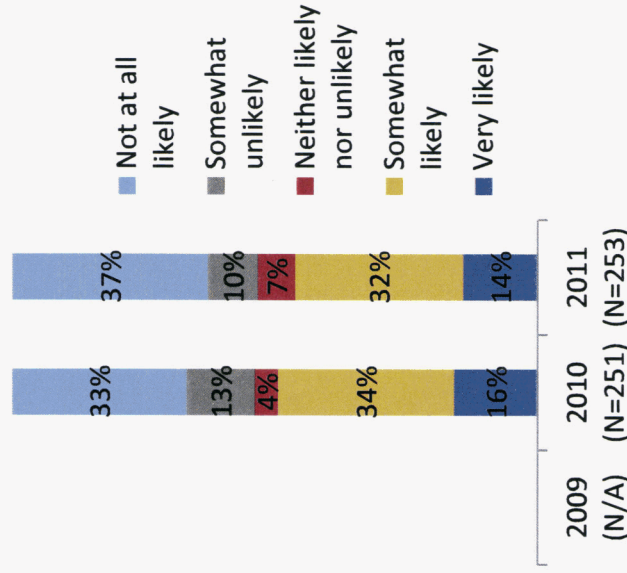
# **EXHIBIT CK-RB12**

## Rate Hikes

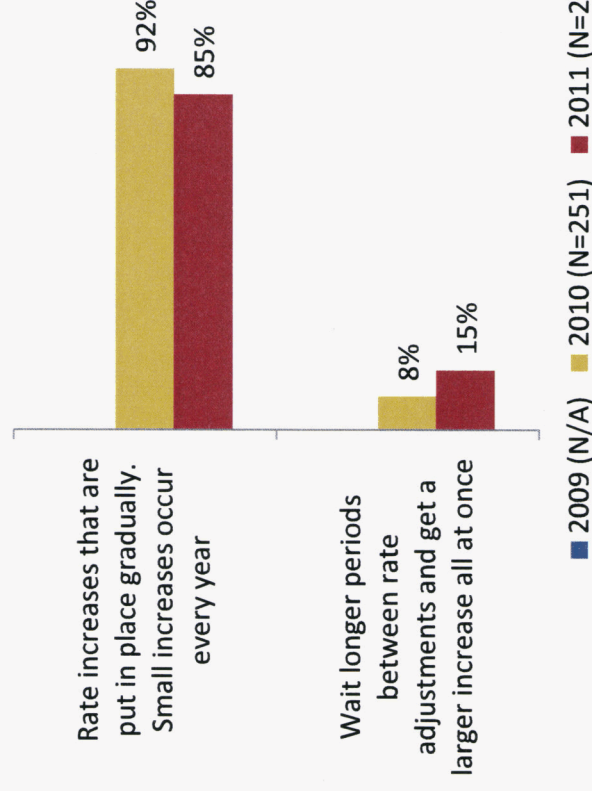
In terms of customer involvement in potential rate hikes, almost half (46%) stated they were very or somewhat likely to attend an informational meeting.

In the case of rate increases the vast majority (85%) preferred having the increases spread out over time with small increases occurring every year.

Likelihood of Attending Informational Meeting



Rate Hike Preference



21a. If rate case informational meetings were held in your community how likely would it be that you would attend?

21c. Regarding rate increases, given the opportunity would you prefer:

1 FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2 Todd Wiley (No. 015358)  
2394 E. Camelback Road  
3 Suite 600  
Phoenix, Arizona 85016  
4 Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 IN THE MATTER OF THE  
9 APPLICATION OF LITCHFIELD PARK  
SERVICE COMPANY, AN ARIZONA  
10 CORPORATION, FOR A  
DETERMINATION OF THE FAIR  
11 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
12 ITS WATER RATES AND CHARGES  
FOR UTILITY SERVICE BASED  
13 THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
15 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
17 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
18 CHARGES FOR UTILITY SERVICE  
BASED THEREON.  
19

DOCKET NO: SW-01428A-13-0042

20  
21 **REBUTTAL TESTIMONY OF**  
22 **THOMAS J. BOURASSA**

23 **RATE BASE, INCOME STATEMENT AND RATE DESIGN**

24 **October 23, 2013**  
25  
26

## Table of Contents

I.	INTRODUCTION AND QUALIFICATIONS .....	2
II.	SUMMARY OF LPSCO'S REBUTTAL POSITION .....	2
III.	RATE BASE.....	5
A.	Water Division Rate Base.....	5
1.	Plant-in-service (PIS) .....	5
2.	Accumulated Depreciation (A/D).....	8
3.	Contributions-in-aid of Construction (CIAC) .....	11
4.	Deferred Income Taxes (DIT) .....	12
5.	Customer Security Deposits .....	13
6.	Deferred Regulatory Assets.....	13
7.	Remaining Rate Base Issues.....	14
a.	Customer Meter Deposits .....	14
B.	Wastewater Division Rate Base .....	14
1.	Plant-in-service (PIS) .....	15
2.	Accumulated Depreciation (A/D).....	18
3.	Contributions-in-aid of Construction (CIAC) .....	20
4.	Deferred Income Taxes (DIT) .....	21
5.	Customer Security Deposits .....	21
6.	Remaining Rate Base Issues.....	22
a.	Customer Meter Deposits .....	22
IV.	INCOME STATEMENT.....	22
A.	Water Division Revenue and Expenses.....	22
B.	Wastewater Division Revenue and Expenses.....	27
1.	Remaining Revenue and Expense Issues .....	30
V.	RATE DESIGN .....	31
A.	Water Division.....	31
a.	Billing Cross Over Issue.....	41
b.	Customers Pay Less for Water Under the Staff and RUCO	

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

	rates.....	42
c.	Staff and RUCO Rate Design Provide Less Revenue Stability .....	44
d.	Unwarranted Revenue Shifting Occurs under the Staff and RUCO rate Designs .....	51
A.	Wastewater Division.....	55
B.	Miscellaneous Charges .....	57

8603670.1/060199.0028

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
7 ("LPSCO" or the Company).

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**  
9 **INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this  
11 docket. There were two volumes, one addressing rate base, income statement and  
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filings by Staff and  
15 RUCO. More specifically, this first volume of my rebuttal testimony relates to rate  
16 base, income statement and rate design for LPSCO. In a second, separate volume  
17 of my rebuttal testimony, I will present an update to the Company's requested cost  
18 of capital as well as provide responses to Staff and RUCO on the cost of capital  
19 and rate of return applied to the fair value rate base, and the determination of  
20 operating income.

21 **II. SUMMARY OF LPSCO'S REBUTTAL POSITION**

22 **Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND**  
23 **WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN**  
24 **THIS REBUTTAL TESTIMONY?**

25 A. For the water division the Company proposes a total revenue requirement of  
26 \$12,861,040, which constitutes an increase in revenues of \$1,674,773, or 14.95

1 percent over adjusted test year revenues. For the wastewater division, LPSCO  
2 proposes a total revenue requirement of \$10,856,139, which constitutes an increase  
3 in revenues of \$493,343, or 4.76 percent over adjusted test year revenues.

4 **Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT**  
5 **FILING?**

6 A. They are both lower. In the direct filing, the Company requested a total revenue  
7 requirement of \$13,458,545 for the water division, which required an increase in  
8 revenues of \$2,257,258, or 20.15 percent. In the direct filing, the Company  
9 requested a total revenue requirement of \$11,020,691 for the wastewater division,  
10 which required an increase in revenues of \$659,088, or 6.36 percent.

11 **Q. WHAT'S DIFFERENT?**

12 A. In its rebuttal filing, LPSCO has adopted a number of rate base and  
13 revenue/expense adjustments recommended by Staff and/or RUCO, as well as  
14 proposed a number of adjustments of its own based on known and measurable  
15 changes to the test year.

16 For the water division, the net result of these adjustments is the Company's  
17 proposed operating expenses have decreased by \$11,324, from \$9,176,963 in the  
18 direct filing to \$9,165,939; and a net decrease of \$2,419,810 in rate base from the  
19 direct filing of \$35,647,602 to \$33,227,792.

20 For the wastewater division, the net result of these adjustments is the  
21 Company's proposed operating expenses have decreased by \$36,133, from  
22 \$8,489,987 in the direct filing to \$8,453,853; and a net increase of \$384,171,204 in  
23 rate base from the direct filing of \$23,877,697 to \$24,264,817.

24 In addition, the Company has reduced its recommended cost of equity from  
25 10.0 percent in its direct filing to 9.7 percent in its rebuttal filing and its  
26 recommended cost of debt from 6.86 percent in its direct filing to 6.4 percent.

1 The Company is recommending a 9.18 percent rate of return on FVRB based on  
2 the Company weighted average cost of capital, which reflects the Company's  
3 proposed capital structure of 15.87 percent debt and 84.13 percent equity. I discuss  
4 the Company proposed return on equity, cost of debt, and capital structure in my  
5 separate rebuttal cost of capital testimony.

6 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**  
7 **INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE**  
8 **OF THE PROCEEDING?**

9 A. For the water division, the proposed revenue requirements and proposed rate  
10 increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
Company-Direct	\$13,458,545	\$2,257,258	20.15%
Staff	\$12,276,127	\$1,074,737	9.59%
RUCO	\$12,371,943	\$1,111,850	9.87%
Company Rebuttal	\$12,870,058	\$1,668,790	14.90%

16 For the wastewater division, the proposed revenue requirements and  
17 proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
Company-Direct	\$11,020,691	\$ 659,088	6.36%
Staff	\$10,361,603	\$ (57,949)	-0.56%
RUCO	\$10,399,050	\$ 36,254	0.35%
Company Rebuttal	\$10,886,824	\$ 524,028	5.06%

1 **III. RATE BASE**

2 **A. Water Division Rate Base**

3 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
4 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

5 A. Yes, for the water division the rate bases proposed by the parties proposing a rate  
6 base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$35,647,602	\$35,647,202
Staff	\$33,119,464	\$33,119,464
RUCO	\$33,245,457	\$33,245,457
Company Rebuttal	\$33,227,792	\$33,227,792

12 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
13 **ORIGINAL COST RATE BASE FOR THE WATER DIVISION?**

14 A. Yes. The Company's rebuttal rate base adjustments to the water division's OCRB  
15 are detailed on rebuttal schedules B-2, pages 3 through 8. Rebuttal Schedule B-2,  
16 page 1 and 2, summarize the Company's proposed adjustments and the rebuttal  
17 OCRB.

18 **1. Plant-in-service (PIS)**

19 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
20 **REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WATER**  
21 **DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
22 **ACCEPTED FROM STAFF AND/OR RUCO?**

23 A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,  
24 consists of seven adjustments labeled as "A", "B", "C", "D", "E", "F", and "G" on  
25 Rebuttal Schedule B-2, page 3.

1 Adjustment A reflects a true-up to plant accruals totaling \$196,725.  
2 This adjustment reflects the adoption of Staff's recommendation.<sup>1</sup> RUCO does not  
3 propose a similar adjustment.

4 Adjustment B reflects a reclassification of plant. Normally, a  
5 reclassification adjustment results in a net zero adjustment to PIS. However, the  
6 net adjustment is (\$12,156) because a portion of the plant is being reclassified to  
7 the wastewater division PIS. This adjustment reflects the adoption of Staff's  
8 recommendation.<sup>2</sup> However, while the net adjustment is the same, there are some  
9 minor differences in amounts each party reclassifies within the PIS accounts.  
10 For example, the Company proposes to reclassify \$23,502 from account 310 –  
11 Power Generation Equipment whereas Staff proposes to reclassify \$16,947 from  
12 this account. There are other minor differences.

13 **Q. WHY ARE THERE THESE MINOR DIFFERENCES?**

14 A. There are inconsistencies between the Staff adjustment contained in their schedules  
15 and the detail contained in Staff witness, Dorothy Haines' testimony.  
16 The Company followed the details of the reclassification as set forth in Ms. Haines'  
17 Direct Testimony (at pages 10 and 11). I cannot explain why Staff's  
18 reclassification does not match the detail provided by Ms. Haines. Mr. Carlson  
19 refers to Ms. Haines' detail as the basis for Staff's adjustment, so I am relying on  
20 Ms. Haines' testimony for the detail.<sup>3</sup>

21  
22  
23  
24  
25 <sup>1</sup> See Direct Testimony of Darron W. Carlson ("Carlson Dt.") at 13-14.

26 <sup>2</sup> Carlson Dt. at 16.

<sup>3</sup> *Id.*

1 Q. THANK YOU. PLEASE CONTINUE.

2 A. RUCO proposes a similar reclassification adjustment.<sup>4</sup> RUCO's net adjustment is  
3 (\$12,320) which is \$164 more than either Staff or the Company. The Company has  
4 not yet determined why the RUCO net adjustment is higher.

5 Adjustment C reflects the removal of plant not used and useful totaling  
6 \$12,156. This adjustment reflects the adoption of Staff's recommendation.<sup>5</sup>  
7 However, there are some differences in the detail. I should also note again that the  
8 Company followed the details of the reclassification as set forth in Staff witness  
9 Dorothy Haines' Direct Testimony (at pages 10) and cannot explain why Staff's  
10 reclassification does not match that detail. Staff's entire adjustment of \$12,156  
11 adjustment is to account 303 – Land and Land Rights, but the detail provided in  
12 Ms. Haines' testimony shows a \$6000 adjustment to account 304 – Land and Land  
13 Rights and a \$6,156 adjustment to account 304 – Structures and Improvements.  
14 RUCO does not propose a similar adjustment.

15 Adjustment D reflects the removal of duplicate invoices recorded to PIS  
16 totaling \$5,608. This adjustment reflects the adoption of Staff's recommendation.<sup>6</sup>  
17 RUCO proposes a similar adjustment, but the adjustment is less at \$2,608.<sup>7</sup>

18 Adjustment E reflects the retirement of transportation equipment totaling  
19 \$17,555. This adjustment reflects the adoption of Staff's recommendation.<sup>8</sup>  
20 RUCO proposes a similar adjustment.<sup>9</sup>

21  
22  
23 <sup>4</sup> See Direct Testimony of Robert B. Mease ("Mease Dt.") at 9-10.

24 <sup>5</sup> Carlson Dt. at 17.

25 <sup>6</sup> Carlson Dt. at 18.

26 <sup>7</sup> Mease Dt. at 10.

<sup>8</sup> Carlson Dt. at 18.

<sup>9</sup> Mease Dt. at 10.

1 Adjustment F reflects various retirements and reclassifications of PIS.  
2 During the discovery phase of this case, the Company found additional plant that  
3 needed to be retired and also found some additional plant recorded in the wrong  
4 accounts. Staff and RUCO do not propose a similar adjustment at this stage of the  
5 proceeding. I would not expect them to since this information did not come to light  
6 until after the Staff and RUCO filings. Both Staff and RUCO have been provided  
7 the details of this adjustment for their consideration.

8 Adjustment G reflects the adjustment necessary to reconcile the Company  
9 proposed plant balances to the detailed support schedule, Schedule B-2, pages 3.8  
10 to 3.12. The adjustment is zero. This reflects that the Company detail plant  
11 schedule reflects all of the Company proposed adjustments.

12 **Q. ARE THERE ANY REMAINING ISSUES BETWEEN THE COMPANY AND**  
13 **THE OTHER PARTIES REGARDING PLANT-IN-SERVICE?**

14 **A. No.**

15 **2. Accumulated Depreciation (A/D)**

16 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
17 **ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE**  
18 **WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
19 **ACCEPTED FROM STAFF AND/OR RUCO?**

20 **A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,**  
21 **consists of nine adjustments labeled as "A", "B", "C", "D", "E", "F", "G", "H",**  
22 **and "I" on Rebuttal Schedule B-2, page 4.**

23 Adjustment A reflects the A/D adjustments related to the true-up to plant  
24 accruals in B-2 adjustment 1A discussed above. Since historical depreciable plant  
25 amounts were reduced, an adjustment to A/D should also be made. Staff does not  
26 propose an adjustment to A/D even though it also recommended an adjustment for

1 the true-up of accruals to PIS as I discussed above. Since RUCO did not propose a  
2 similar adjustment RUCO does not propose any A/D adjustment for the true-up of  
3 accruals.

4 Adjustment B reflects the A/D adjustment associated with the  
5 reclassification of plant discussed in B-2 adjustment 1B above. Since historical  
6 depreciable plant amounts were reclassified to accounts with differing depreciation  
7 rates, an adjustment to A/D should also be made. The Company proposes a net  
8 downward adjustment to A/D of 26,572. Staff also proposes a net downward  
9 adjustment to A/D related to its reclassification adjustment, but Staff proposes a net  
10 downward adjustment of \$27,948.<sup>10</sup> Since there are differences between the  
11 Company and Staff with respect to the details of the reclassification, as I discussed  
12 above, I would expect the Staff A/D adjustment to be different than the  
13 Company's. RUCO also proposes a net downward adjustment to A/D related to  
14 its reclassification adjustment, but RUCO proposes a net downward adjustment of  
15 \$25,981.<sup>11</sup> Since there are differences between the Company and RUCO with  
16 respect to the details of the reclassification, as I discussed above, I would also  
17 expect the RUCO A/D adjustment to be different than the Company's.

18 Adjustment C reflects the A/D associated with removal of plant not used  
19 and useful, as discussed in B-2 adjustment 1C above. The Company proposes a  
20 downward adjustment of \$308. Staff does not propose a similar adjustment.  
21 However, I believe Staff should have. The Staff detail (provided by Ms. Haines as  
22 I discussed above) shows that one of the plant accounts adjusted was account 304 –  
23 Structures and Improvements, which is a depreciable plant account. Therefore, an  
24 adjustment to A/D should also be made. RUCO does not propose a similar

25 <sup>10</sup> See Staff Schedule DWC-W4, page 1 of 2, adjustment number 5.

26 <sup>11</sup> Mease Dt. at 14.

1 adjustment as RUCO has not proposed any adjustment for not used and useful  
2 plant.

3 Adjustment D reflects the A/D associated with the removal of duplicate  
4 invoices recorded to PIS discussed in B-2 adjustment 1D above. The Company's  
5 adjustment is a downward adjustment to A/D of \$380. Staff's downward  
6 adjustment is for \$130.<sup>12</sup> The Company believes the Staff adjustment is incorrect  
7 because it failed to compute the A/D for all of its recommended adjustment to PIS.  
8 As can be seen in the details of the Staff A/D adjustment shown on Staff Schedule  
9 DWC-W11, Staff only computes an A/D adjustment for account 335 – Hydrants  
10 but does not do so for account 304 – Structures and Improvements, which is a  
11 depreciable account just like account 335. There is no reason for Staff to ignore  
12 the A/D associated with account 304. RUCO proposes a similar A/D adjustment,  
13 but the adjustment is less at \$130, because its PIS adjustment is less.<sup>13</sup>

14 Adjustment E reflects the A/D retirement adjustment for the retirement of  
15 transportation equipment as discussed in B-2 adjustment 1E above.  
16 The Company's A/D adjustment is a downward adjustment of \$17,555. The Staff  
17 and RUCO A/D adjustments match the Company's adjustment.<sup>14</sup>

18 Adjustment F reflects a correction to the A/D balance because of an error  
19 contained in the Company's original filing. The Company's proposed adjustment  
20 increases the A/D balance by \$2,454,800. Both Staff and RUCO propose the same  
21 adjustment.<sup>15</sup>

22  
23  
24 <sup>12</sup> See Staff Schedule DWC-W4, page 1 of 3, adjustment number 7.

25 <sup>13</sup> Mease Dt. at 14.

26 <sup>14</sup> See Staff Schedule DWC-W4, page 1 of 3, adjustment number 8; Mease Dt. at 14.

<sup>15</sup> Carlson Dt. at 13; Mease Dt. at 14.

1 Adjustment G reflects the adjustment necessary to correct A/D for plant  
2 amounts recorded in the wrong years. The Company's proposed adjustment  
3 increases the A/D balance by \$99,481. Both Staff and RUCO propose the same  
4 adjustment.<sup>16</sup>

5 Adjustment H reflects the A/D adjustments related to the various retirements  
6 and reclassifications of PIS as discussed in B-2 adjustment 1F above. The A/D  
7 adjustment reduces the A/D balance by \$46,613. Staff and RUCO do not propose a  
8 similar adjustment as they were not yet aware of this adjustment at the time of their  
9 filing.

10 Adjustment I reflects the adjustment necessary to reconcile the Company  
11 proposed A/D balances to the detailed support schedule, Schedule B-2, pages 3.8 to  
12 3.12. The adjustment is an additional downward adjustment to A/D for \$32,880.  
13 The reduction in A/D arises from the retirement of \$17,755 of transportation  
14 equipment taken out of service in 2011 and the retirement of \$40,196 of  
15 transportation equipment taken out of service in 2008. The \$32,888 represents  
16 depreciation expense that should not have been recorded for 2008 through 2011 on  
17 this plant. Staff and RUCO do not propose a similar adjustment to reconcile A/D.

18 **3. Contributions-in-aid of Construction (CIAC)**

19 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE WATER**  
20 **DIVISION'S CONTRIBUTIONS-IN-AID OF CONSTRUCTION AND**  
21 **ACCUMULATED AMORTIZATION BALANCES.**

22 **A.** In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company  
23 increases CIAC by \$101,234. This adjustment reflects a correction to an error  
24  
25

26 <sup>16</sup> Carlson Dt. at 15; Mease Dt. at 14.

1 contained in the original filing CIAC balance. Staff recommends the same  
2 adjustment.<sup>17</sup> RUCO also recommends this adjustment.<sup>18</sup>

3 The Company also recommends a downward adjustment to accumulated  
4 amortization of \$203,918. The amount of the adjustments recognizes the changes  
5 to the annually computed composite amortization rates in the intervening years  
6 since the last test year resulting from the Company's proposed PIS adjustments  
7 discussed previously. RUCO has made the same adjustment of \$203,918 to  
8 accumulated amortization.<sup>19</sup> Staff proposes a similar adjustment.<sup>20</sup> However, Staff  
9 adjustment is lower at \$193,524.

10 **Q. WHY IS THERE A DIFFERENCE?**

11 A. I am not sure at this point. Staff did not provide a schedule showing the  
12 reconstruction of the CIAC amortization balance in its filing and I am unable to  
13 locate one anywhere in their schedules. I will consult with Staff to identify the  
14 cause of the difference.

15 **4. Deferred Income Taxes (DIT)**

16 **Q. PLEASE DISCUSS THE COMPANY PROPOSED A REBUTTAL**  
17 **ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WATER**  
18 **DIVISION.**

19 A. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company  
20 proposes to reduce accumulated deferred income taxes ("ADIT") by \$631,432.  
21 The details of the computation are shown on Schedule B-2, page 6.0 and 6.1.

22  
23  
24 <sup>17</sup> Carlson Dt. at 18-19.

25 <sup>18</sup> Mease Dt. at 16.

26 <sup>19</sup> Mease Dt. at 17.

<sup>20</sup> Carlson Dt. at 19.

1 This adjustment recognizes the Company's rebuttal proposed PIS, A/D, AIAC, and  
2 CIAC balances.

3 **Q. DID STAFF AND RUCO PROPOSE ADJUSTMENTS TO DEFERRED**  
4 **INCOME TAXES FOR THE WATER DIVISION?**

5 A. Yes. Both Staff and RUCO propose reductions to ADIT based upon their  
6 respective recommended PIS, A/D, AIAC and CIAC balances.<sup>21</sup> The methodology  
7 does not appear to be in dispute nor are the tax rates employed.

8 **5. Customer Security Deposits**

9 **Q. PLEASE DISCUSS THE COMPANY PROPOSED REBUTTAL**  
10 **ADJUSTMENT TO CUSTOMER METER DEPOSITS.**

11 A. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company  
12 proposes to increase Customer Security Deposits by \$7,514. This adjustment  
13 reflects the adoption of the Staff recommended adjustment.<sup>22</sup> RUCO proposes a  
14 similar adjustment but proposes an adjustment of \$7,785.<sup>23</sup>

15 **6. Deferred Regulatory Assets**

16 **Q. PLEASE DISCUSS THE COMPANY PROPOSED A REBUTTAL**  
17 **ADJUSTMENT TO REGULATORY ASSETS.**

18 A. In rebuttal B-2 adjustment 6, as shown on Schedule B-2, page 2, the Company  
19 proposes to increase deferred regulatory assets by \$688. This adjustment reflects  
20 the adoption of the RUCO recommended adjustment.<sup>24</sup> Staff does not propose a  
21 similar adjustment.

22  
23  
24 <sup>21</sup> Carlson Dt. at 20; Mease Dt. at 25-26.

25 <sup>22</sup> Carlson Dt. at 19.

26 <sup>23</sup> Mease Dt. at 19.

<sup>24</sup> Carlson Dt. at 19.

1                   7.     Remaining Rate Base Issues

2                   a.     Customer Meter Deposits

3     Q.    PLEASE COMMENT ON THE RUCO PROPOSED ADJUSTMENT TO  
4           CUSTOMER METER DEPOSITS.

5     A.    RUCO proposes to increase customer meter deposits using a 13-month average of  
6           the meter deposit balance. The Company does not agree with this adjustment  
7           because it will result in a rate base mismatch between meter deposits and PIS.  
8           Put simply, meter deposits fund PIS (meter and service line plant costs). The PIS  
9           balance in rate base is a test year-end balance. The meter deposits balance must be  
10          stated on the basis as PIS balance otherwise a mismatch will occur.

11    Q.    WHY DOESN'T THE USE OF A 13-MONTH AVERAGE FOR CUSTOMER  
12          SECURITY DEPOSITS CREATE A RATE BASE MISMATCH?

13    A.    Customer security deposits are fundamentally different than customer meter  
14          deposits. They are used as security for customer bill payment and not for funding  
15          plant.

16    B.    Wastewater Division Rate Base

17    Q.    WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE  
18          BASE RECOMMENDATIONS FOR THE WATER DIVISION?

19    A.    Yes, for the water division the rate bases proposed by the parties proposing a rate  
20          base in the case, the Company, Staff and RUCO, are as follows:

21

	<u>OCRB</u>	<u>FVRB</u>
22    Company-Direct	\$23,877,697	\$23,877,697
23    Staff	\$23,424,640	\$23,424,640
24    RUCO	\$23,988,000	\$23,988,000
25    Company Rebuttal	\$24,099,901	\$24,099,901

26

1 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED  
2 ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

3 A. Yes. The Company's rebuttal rate base adjustments to the wastewater division's  
4 OCRB are detailed on rebuttal schedules B-2, pages 3 through 7. Rebuttal  
5 Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and  
6 the rebuttal OCRB.

7 1. Plant-in-service (PIS)

8 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED  
9 ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WASTEWATER  
10 DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE  
11 ACCEPTED FROM STAFF AND/OR RUCO?

12 A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,  
13 consists of eight adjustments labeled as "A", "B", "C", "D", "E", "F", "G" and "H"  
14 on Rebuttal Schedule B-2, page 3.

15 Adjustment A reflects an updated estimate of the post-test year plant costs it  
16 proposed in the direct filing. Staff has not adopted any Company proposed post-test  
17 year plant at this stage of the proceeding.<sup>25</sup> RUCO appears to have adopted the  
18 Company direct filing post-test year plant adjustment at this stage of the  
19 proceeding since RUCO does not propose a post-test year PIS adjustment.  
20 Mr. Krygier explains this adjustment and responds to the Staff testimony on post-  
21 test year plant.

22 Adjustment B reflects the reversal of the Company's post-test year plant  
23 retirement amounts it proposed in the direct filing. Staff is not proposing any post-  
24 test year plant adjustments and therefore proposes to reverse the Company's direct  
25

26 <sup>25</sup> Carlson Dt. at 12.

1 filing post-test year retirement adjustment.<sup>26</sup> RUCO has adopted the Company's  
2 proposed direct filing retirement adjustment at this stage of the proceeding.  
3 Mr. Krygier explains this adjustment and responds to the Staff testimony.

4 Adjustment C reflects a true-up to plant accruals totaling \$195,445.  
5 This adjustment reflects the adoption of Staff's recommendation.<sup>27</sup> RUCO does  
6 not propose a similar adjustment.

7 Adjustment D reflects a reclassification of plant. Normally a  
8 reclassification adjustment results in a net zero adjustment to PIS. However, the  
9 net adjustment is \$12,156 because a portion of the plant is being reclassified from  
10 the water division PIS. This adjustment is similar to Staff's recommendation.<sup>28</sup>  
11 Staff's net adjustment is \$6,000. The difference between the Company proposed  
12 amount and Staff is a \$6,156 cost related to the Palm Valley WWTP. Ms. Haines'  
13 reclassification detail includes this amount in the details of the wastewater plant  
14 reclassification found in her testimony (at pages 11 and 12). Ms. Haines does not  
15 identify the plant account in which the \$6,156 should be included for some  
16 unexplained reason, but it is related to treatment and disposal equipment and  
17 therefore belongs in the 380 – Treatment and Disposal Equipment account.  
18 Mr. Carlson refers to Ms. Haines' detail as the basis for Staff's adjustment, so I  
19 assume it serves as the basis of the adjustment in his schedules.<sup>29</sup> RUCO proposes  
20 a similar adjustment.<sup>30</sup> RUCO's reclassification amounts are different than the  
21 Company's and their adjustments net to zero.

22  
23 

---

<sup>26</sup> *Id.*

24 <sup>27</sup> Carlson Dt. at 14.

25 <sup>28</sup> Carlson Dt. at 16.

26 <sup>29</sup> *Id.*

<sup>30</sup> Mease Dt. at 10.

1 Adjustment E reflects the removal of plant not used and useful totaling  
2 \$124,546. This adjustment reflects the adoption of Staff's recommendation.<sup>31</sup>  
3 RUCO proposed a similar adjustment except it totals only \$11,217.<sup>32</sup>

4 Adjustment F reflects the removal of duplicate invoices recorded to PIS  
5 totaling \$4,672. This adjustment reflects the adoption of Staff's recommendation.<sup>33</sup>  
6 RUCO proposes a similar adjustment, but the adjustment is higher at \$9,254.<sup>34</sup>

7 Adjustment G reflects various retirements and reclassifications of PIS.  
8 During the discovery phase of this case, the Company found additional plant that  
9 needed to be retired and also found some additional plant recorded in the wrong  
10 accounts. Staff and RUCO do not propose a similar adjustment. I would not  
11 expect them to have done so yet since this information did not come to light until  
12 after the Staff and RUCO filings. Both Staff and RUCO have been provided the  
13 details of this adjustment for their consideration.

14 Adjustment H reflects the adjustment necessary to reconcile the Company  
15 proposed plant balances to the detailed support schedule, Schedule B-2, pages 3.8  
16 to 3.12. The adjustment is zero. This reflects that the Company detail plant  
17 schedule reflects all of the Company proposed adjustments.

18 **Q. ARE THERE ANY REMAINING ISSUES BETWEEN THE COMPANY**  
19 **AND THE OTHER PARTIES REGARDING PLANT-IN-SERVICE?**

20 **A. No.**

24 <sup>31</sup> Carlson Dt. at 17.

25 <sup>32</sup> Mease Dt. at 11.

26 <sup>33</sup> Carlson Dt. at 18.

<sup>34</sup> Mease Dt. at 11.

1                   2.     Accumulated Depreciation (A/D)

2     Q.     WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED  
3     ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE  
4     WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU  
5     HAVE ACCEPTED FROM STAFF AND/OR RUCO?

6     A.     Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,  
7     consists of eight adjustments labeled as "A", "B", "C", "D", "E", "F", "G", and  
8     "H" on Rebuttal Schedule B-2, page 4.

9             Adjustment A reflects the adjustment to A/D for the reversal of the  
10     Company's post-test year retirement adjustment as discussed in in B-2 adjustment  
11     1B, above.

12            Adjustment B reflects the A/D adjustments related to the true-up to plant  
13     accruals in B-2 adjustment 1C discussed above. Since historical depreciable plant  
14     amounts were reduced an adjustment to A/D should also be made. Staff does not  
15     propose an adjustment to A/D even though it also recommended an adjustment for  
16     the true-up of accruals to PIS as I discussed above. Since RUCO did not propose a  
17     similar adjustment RUCO does not propose any A/D adjustment to the true-up of  
18     accruals.

19            Adjustment B reflects the A/D adjustment associated with the  
20     reclassification of plant discussed in B-2 adjustment 1D, above. Since historical  
21     depreciable plant amounts were reclassified to accounts with differing depreciation  
22     rates an adjustment to A/D should also be made. The Company proposes a net  
23     downward adjustment to A/D of 32,185. Staff also proposes a net downward  
24     adjustment to A/D related to its reclassification adjustment, but Staff proposes a net  
25  
26

1 downward adjustment of \$18,194.<sup>35</sup> Since there are differences between the  
2 Company and Staff with respect to the details of the reclassification, as I discussed  
3 in B-2 adjustment 1E above, I would expect the Staff A/D adjustment to be  
4 different than the Company's. However, I would not expect Staff's A/D  
5 adjustment to be as low as \$18,194 low considering the difference in the plant  
6 reclassification detail between the Company and Staff was only \$6,000. A cursory  
7 review of the Staff computations as shown on Schedule DWC-WW9 reveals that  
8 Staff used a depreciation rate of 2 percent for flow measuring devices instead of the  
9 correct 10 percent rate. Another readily identifiable error is that Staff lists the  
10 account 354 – Structures and Improvements years as 2009 and 2011, when the  
11 correct years should be 2009 and 2012. Correcting these two errors would bring  
12 the Staff adjustment up to at least \$31,187.

13 Adjustment C reflects the A/D associated with removal of plant not used  
14 and useful discussed in B-2 adjustment 1E above. The Company proposes a  
15 downward adjustment of \$5,661 which matches the Staff proposed adjustment  
16 amount.<sup>36</sup>

17 Adjustment D reflects the A/D associated with the removal of duplicate  
18 invoices recorded to PIS discussed in B-2 adjustment 1F above. The Company's  
19 adjustment is a downward adjustment to A/D of \$214. RUCO proposes a similar  
20 A/D adjustment for its duplicate invoice PIS adjustment. RUCO's adjustment is  
21 higher at \$823, reflecting RUCO's larger PIS adjustment for duplicate invoices.<sup>37</sup>

22 Adjustment G reflects the adjustment necessary to correct A/D for plant  
23 amounts recorded in the wrong years. The Company's proposed adjustment  
24

25 <sup>35</sup> See Staff Schedule DWC-W4, page 1 of 2, adjustment number 5.

26 <sup>36</sup> See Staff Schedule DWC-WW4, page 1 of 2, adjustment number 6.

<sup>37</sup> Mease Dt. at 15.

1 increases the A/D balance by \$7,711. Both Staff and RUCO propose the same  
2 adjustment.<sup>38</sup>

3 Adjustment H reflects the A/D adjustments related to the various retirements  
4 and reclassifications of PIS discussed above. The A/D adjustment reduces the A/D  
5 balance by \$10,515. Staff and RUCO do not propose a similar adjustment as they  
6 were not yet aware of this adjustment yet at the time of their filing.

7 Adjustment H reflects the adjustment necessary to reconcile the Company  
8 proposed A/D balances to the detailed support schedule, Schedule B-2, pages 3.8 to  
9 3.12.

10 **3. Contributions-in-aid of Construction (CIAC)**

11 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE**  
12 **WASTEWATER DIVISION'S CONTRIBUTIONS-IN-AID OF**  
13 **CONSTRUCTION AND ACCUMULATED AMORTIZATION**  
14 **BALANCES.**

15 **A.** In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company  
16 increases CIAC by \$93,570. This adjustment reflects a correction to an error  
17 contained in the original filing CIAC balance. Staff recommends the same  
18 adjustment.<sup>39</sup> RUCO also recommends this adjustment.<sup>40</sup>

19 The Company also recommends a downward adjustment to accumulated  
20 amortization of \$293,475. The amount of the adjustment recognizes the changes to  
21 the annually computed composite amortization rates in the intervening years since  
22 the last test year resulting from the Company's proposed plant retirements  
23

24  
25 <sup>38</sup> Carlson Dt. at 15; Mease Dt. at 14.

26 <sup>39</sup> Carlson Dt. at 19.

<sup>40</sup> Mease Dt. at 17.

discussed above. The Staff and RUCO proposed adjustment amounts are the same amount as the Company proposed amount.<sup>41</sup>

**4. Deferred Income Taxes (DIT)**

**Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WASTEWATER DIVISION?**

A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes to reduce ADIT by \$631,432. The details of the computation are shown on Schedule B-2, page 7.0 and 7.1. This adjustment recognizes the Company's rebuttal proposed PIS, A/D, AIAC, and CIAC balances.

**Q. DID STAFF AND RUCO PROPOSE ADJUSTMENTS TO DEFERRED INCOME TAXES FOR THE WASTEWATER DIVISION?**

A. Yes. Both Staff and RUCO propose reductions to ADIT based upon their respective recommended PIS, A/D, AIAC and CIAC balances.<sup>42</sup> The methodology does not appear to be in dispute nor are the tax rates employed.

**5. Customer Security Deposits**

**Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO CUSTOMER METER DEPOSITS?**

A. Yes. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company proposes to increase Customer Security Deposits by \$8,334. This adjustment reflects the adoption of the Staff recommended adjustment.<sup>43</sup> RUCO proposes a similar adjustment but proposes an adjustment of \$8,553.<sup>44</sup>

<sup>41</sup> Carlson Dt. at 19; Mease Dt. at 17.

<sup>42</sup> Carlson Dt. at 20; Mease Dt. at 25-26.

<sup>43</sup> Carlson Dt. at 19.

<sup>44</sup> Mease Dt. at 19.

1                   **6.     Remaining Rate Base Issues**

2                   **a.     Customer Meter Deposits**

3   **Q.   PLEASE COMMENT ON THE RUCO PROPOSED ADJUSTMENT TO**  
4   **CUSTOMER METER DEPOSITS.**

5   **A.   RUCO proposes to increase customer using a 13-month average of the meter**  
6   **deposit balance. The Company does not agree with this adjustment because it will**  
7   **result in a rate base mismatch for the reasons explained in my testimony above**  
8   **(on page 14).**

9   **IV.   INCOME STATEMENT**

10               **A.   Water Division Revenue and Expenses**

11   **Q.   WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
12   **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**  
13   **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
14   **ACCEPTED FROM STAFF AND/OR RUCO?**

15   **A.   The Company rebuttal adjustments for the water division are detailed on Rebuttal**  
16   **Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is**  
17   **summarized on Rebuttal Schedule C-1, page 1-2.**

18               Rebuttal adjustment 1 increases depreciation expense. The rebuttal  
19   proposed depreciation expense is higher than the direct filing by \$11,713.  
20   The reduction is primarily due to the impacts of the Company's proposed rebuttal  
21   adjustments to PIS and CIAC as discussed above. The Staff and RUCO  
22   recommend depreciation expense levels are different than the Company's due to  
23   the respective recommended PIS and CIAC balances.

24               Rebuttal adjustment number 2 increases property tax expense and reflects  
25   the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement  
26   on the method of computing property taxes. This method utilizes the ADOR

1 formula and inputs two years of adjusted revenues plus one year of proposed  
2 revenues. I computed the property taxes based on the Company's proposed  
3 revenues, and then used the property tax rate and assessment ratio that was used in  
4 the direct filing.

5 **Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT**  
6 **RATIOS?**

7 A. Yes.<sup>45</sup>

8 **Q. ANY OTHER DIFFERENCES?**

9 A. Staff and RUCO use different net book values for transportation equipment than  
10 the Company. The net book value for transportation equipment the Company  
11 utilizes is \$96,334 whereas Staff and RUCO use net book values of \$107,049 and  
12 \$63,445, respectively. The different net book values appear to be the result of  
13 differences in each of the respective parties' computed A/D balance for  
14 transportation equipment.

15 **Q. THANK YOU. PLEASE CONTINUE.**

16 A. Rebuttal adjustment number 3 reduces water testing by \$22,062. This adjustment  
17 reflects the adoption of RUCO's proposed adjustment to water testing expense.<sup>46</sup>  
18 Staff also proposes a reduction to water testing expense, but the Staff adjustment is  
19 only \$4,464. The Company disagrees with the Staff adjustment and believes the  
20 adjustment should be higher.

21 Rebuttal adjustment number 4 reduces Management Services – US Liberty  
22 expense and reflects a corporate expense true-up of \$8,420. This adjustment  
23

24  
25 <sup>45</sup> See LPSCO Water Schedule C-2, page 3; Staff Schedule DWC-WW23; RUCO Water Division  
Schedule RBM-17.

26 <sup>46</sup> Mease Dt. at 25.

1 reflects the adoption of Staff's proposed corporate expense true-up adjustment.<sup>47</sup>  
2 RUCO does not propose a similar adjustment.

3 Rebuttal adjustment number 5 reduces Management Services – US Liberty  
4 expense and reflects a corporate allocation expense adjustment of \$1,829. RUCO  
5 also proposes a downward corporate expense allocation adjustment of \$115,363.<sup>48</sup>  
6 Mr. Krygier responds to the Staff and RUCO testimonies on this issue.<sup>49</sup>

7 Rebuttal adjustment 6 increases miscellaneous expense by \$5,931 for  
8 interest expense on customer security deposits. This adjustment reflects the  
9 adoption of Staff's proposed adjustment to miscellaneous expense.<sup>50</sup> RUCO also  
10 proposes an upward adjustment to miscellaneous expense for interest on security  
11 deposits, but RUCO's proposed adjustment is \$4,848.<sup>51</sup>

12 Rebuttal adjustment 7 increases bad debt expense and reflects the  
13 reclassification of bad debt expense to the wastewater division. This adjustment  
14 reflects the adoption of the RUCO adjustment to bad debt expense.<sup>52</sup> Staff has not  
15 proposed a similar adjustment.

16 Rebuttal adjustment 8 reduces miscellaneous expense by \$16,108 and  
17 reflects the adoption of RUCO's recommendation to remove certain miscellaneous  
18 expenses.<sup>53</sup>

19 Rebuttal adjustment 9 increases Regulatory Commission Expense Other by  
20 \$851 to recognize the annualization of amortization expense for the TCE Plume  
21

---

22 <sup>47</sup> Carlson Dt. at 24.

23 <sup>48</sup> Mease Dt. at 30.

24 <sup>49</sup> See Rebuttal Testimony of Christopher D. Krygier ("Krygier Rb.") at 8-10.

25 <sup>50</sup> Carlson Dt. at 25.

26 <sup>51</sup> Mease Dt. at 33.

<sup>52</sup> Mease Dt. at 28.

<sup>53</sup> Mease Dt. at 33..

1 deferred regulatory asset. Annualization of the amortization expense is similar to  
2 the annualization of depreciation expense. The deferred regulatory asset balance  
3 increased during the test year and amortization expense only reflected a half year  
4 of annualization.

5 Rebuttal Adjustment 10 reflects the changes to interest expense resulting  
6 from interest synchronization using the Company's rebuttal proposed rate base and  
7 the weighted cost of debt. All the parties interest synchronize interest expense with  
8 rate base.<sup>54</sup>

9 Rebuttal Adjustment 11 reflects the changes to income taxes at the  
10 Company's rebuttal proposed revenues and expenses.

11 **Q. DOES THE COMPANY'S PROPOSED INCOME TAX EXPENSE**  
12 **REFLECT THE REDUCTION IN THE STATE INCOME TAX RATE?**

13 A. Yes, the state income tax rate is 6.50% which is the income tax rate in effect  
14 through the end of 2014.

15 **Q. DO ALL THE PARIES USE THIS TAX RATE?**

16 A. Yes.<sup>55</sup>

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23  
24 <sup>54</sup> See LPSCO Water Division Schedule C-3, page 2; Staff Schedule DWC-WW2, and RUCO Water  
25 Division Schedule RBM-1.

26 <sup>55</sup> See LPSCO Water Division Schedule C-3, page 2; Staff Schedule DWC-W2, and RUCO Water  
Division Schedule RBM-1.

1                   **1.     Water Division Remaining Revenue and Expense Issues**

2                   **a.     Declining Usage Adjustment**

3   **Q.   PLEASE COMMENT ON THE RUCO TESTIMONY REAGRDNIG THE**  
4   **COMPANY'S DECLINING USAGE ADJUSTMENT.**

5   **A.   Mr. Krygier responds to this issue.<sup>56</sup>**

6                   **b.     RUCO's Liberty Water Adjustment**

7   **Q.   PLEASE DISCUSS RUCO'S ADJUSTMENT TO MANAGEMENT**  
8   **SERVICE – LIBERTY WATER.**

9   **A.   The Company does not agree with RUCO proposed adjustment to Management**  
10   **Services – Liberty Water for cost related to employee incentives.<sup>57</sup> Mr. Sorenson**  
11   **addresses the reasonableness of including these costs in the Liberty Water**  
12   **allocation and in the operating expenses of LPSCO.<sup>58</sup>**

13   **Q.   PLEASE DISCUSS RUCO'S ADJUSTMENT TO SALARIES AND WAGES**  
14   **FOR EMPLOYEE PENSION BENEFITS.**

15   **A.   The Company does not agree with RUCO proposed adjustment to Salaries and**  
16   **Wages for cost related to employee pension benefits.<sup>59</sup> Mr. Krygier addresses the**  
17   **reasonableness of including these costs in Salaries and Wages expense of**  
18   **LPSCO.<sup>60</sup>**

19  
20  
21  
22  
23                   

---

<sup>56</sup> Krygier Rb. at 4-7.

24                   <sup>57</sup> Mease Dt. at 32.

25                   <sup>58</sup> See Rebuttal Testimony of Greg Sorenson ("Sorenson Rb.") at 1-4.

26                   <sup>59</sup> Mease Dt. at 26-27.

<sup>60</sup> Krygier Rb. at 7-8.

1           **B.     Wastewater Division Revenue and Expenses**

2   **Q.     WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
3       **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE**  
4       **WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU**  
5       **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

6   **A.     The Company rebuttal adjustments for the wastewater division are detailed on**  
7       **Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with**  
8       **adjustments is summarized on Rebuttal Schedule C-1, page 1-2.**

9           Rebuttal adjustment 1 increases depreciation expense. The rebuttal  
10          proposed depreciation expense is higher than the direct filing by \$27,613.  
11          The reduction is primarily due to the impacts of the Company's proposed rebuttal  
12          adjustments to PIS and CIAC as discussed above. Staff and RUCO recommend  
13          depreciation expense levels different than the Company due to the different  
14          respective recommended PIS and CIAC balances.

15          Rebuttal adjustment number 2 increases property tax expense and reflects  
16          the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement  
17          on the method of computing property taxes. This method utilizes the ADOR  
18          formula and inputs two years of adjusted revenues plus one year of proposed  
19          revenues. I computed the property taxes based on the Company's proposed  
20          revenues, and then used the property tax rate and assessment ratio that was used in  
21          the direct filing.

22   **Q.     ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT**  
23       **RATIOS?**

24   **A.     Yes.<sup>61</sup>**

25           

---

  
26   <sup>61</sup> See LPSCO Wastewater Schedule C-2, page 3; Staff Schedule DWC-WW23; RUCO Wastewater  
Division Schedule RBM-17.

1   **Q.    ANY OTHER DIFFERENCES?**

2   **A.    Staff and RUCO use different net book values for transportation equipment than**  
3       the Company. The net book value for transportation equipment the Company  
4       utilizes is \$51,225, whereas Staff and RUCO use net book values of \$50,681 and  
5       \$3,646, respectively. The different net book values appear to be the result of  
6       differences in each of the respective parties' computed A/D balance for  
7       transportation equipment.

8   **Q.    THANK YOU. PLEASE CONTINUE.**

9   **A.    Rebuttal adjustment number 3 reduces water testing by \$27,078 and increases**  
10       sludge removal expense by \$3,410. This adjustment reflects, in part, the adoption  
11       of Staff's proposed adjustment to sludge removal expense.<sup>62</sup> Staff also proposes a  
12       reduction in water testing expense of \$35,730. The Company disagrees with the  
13       Staff adjustment amount. The Company does agree with all of the testing expense  
14       outlined by Ms. Hains in her testimony (on pages 5-6) with the exception of the  
15       E Coli testing expense. The Company estimates the E Coli testing expense to be  
16       \$13,580 annually compared to Ms. Hains's estimate of \$4,928. The difference in  
17       cost is \$8,652. Thus the Company's proposed adjustment is equal to the Staff  
18       adjustment of for water testing of \$35,750 less \$8,562.

19               Rebuttal adjustment number 4 reduces Management Services – US Liberty  
20       expense and reflects a corporate expense true-up of \$7,420. This adjustment  
21       reflects the adoption of Staff's proposed corporate expense true-up adjustment.<sup>63</sup>  
22       RUCO does not propose a similar adjustment.

23               Rebuttal adjustment number 5 reduces Management Services – US Liberty  
24       expense reflecting a corporate allocation expense adjustment of \$2,521.

25       

---

<sup>62</sup> Carlson Dt. at 21-22.

26       <sup>63</sup> Carlson Dt. at 24.

1 Staff proposes a downward corporate expense allocation adjustment, but Staff  
2 proposes a downward adjustment of \$23,978.<sup>64</sup> RUCO also proposes a downward  
3 corporate expense allocation adjustment, but RUCO proposes a downward  
4 adjustment of \$115,307.<sup>65</sup> Mr. Krygier responds to the Staff and RUCO  
5 testimonies on this issue.<sup>66</sup>

6 Rebuttal adjustment 6 increases miscellaneous expense by \$5,346 for  
7 interest expense on customer security deposits. This adjustment reflects the  
8 adoption of the Staff proposed adjustment to miscellaneous expense.<sup>67</sup> RUCO also  
9 proposes an upward adjustment to miscellaneous expense for interest on security  
10 deposits, but RUCO's proposed adjustment is \$5,467.<sup>68</sup>

11 Rebuttal adjustment 7 increases revenues and sludge removal expense.  
12 This adjustment reflects the adoption of RUCO's adjustment to revenues and  
13 sludge removal expense.<sup>69</sup> Staff does not propose a similar adjustment.

14 Rebuttal adjustment 8 reduces bad debt expense and reflects the  
15 reclassification of bad debt expense to the water division. This adjustment reflects  
16 the adoption of the RUCO adjustment to bad debt expense.<sup>70</sup> Staff has not  
17 proposed a similar adjustment.

18 Rebuttal adjustment 9 reduces miscellaneous expense by \$342 and reflects  
19 the adoption of RUCO's recommendation to remove certain miscellaneous  
20 expenses.<sup>71</sup>

---

21 <sup>64</sup> Carlson Dt. at 25.

22 <sup>65</sup> Mease Dt. at 30.

23 <sup>66</sup> Krygier at 8-20.

24 <sup>67</sup> Carlson Dt. at 25.

25 <sup>68</sup> Mease Dt. at 33.

26 <sup>69</sup> Mease Dt. at 23.

<sup>70</sup> Mease Dt. at 28.

<sup>71</sup> Mease Dt. at 33.

1           Rebuttal Adjustment 10 reflects the changes to interest expense resulting  
2 from interest synchronization using the Company's rebuttal proposed rate base and  
3 the weighted cost of debt. All the parties interest synchronize interest expense with  
4 rate base.<sup>72</sup>

5           Rebuttal Adjustment 11 reflects the changes to income taxes at the  
6 Company's rebuttal proposed revenues and expenses.

7 **Q. DOES THE COMPANY'S PROPOSED INCOME TAX EXPENSE**  
8 **REFLECT THE REDUCTION IN THE STATE INCOME TAX RATE?**

9 A. Yes, the state income tax rate is 6.50% which is the income tax rate in effect  
10 through the end of 2014.

11 **Q. DO ALL OF THE PARIES USE THIS TAX RATE?**

12 A. Yes.<sup>73</sup>

13           1. **Remaining Revenue and Expense Issues**

14 **Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH**  
15 **RUCO AND/OR STAFF.**

16 A. I have discussed the issues with respect to employee incentives previously on page  
17 26. My discussion on these issues applies equally to the wastewater division, only  
18 the amounts in disputes are different for the wastewater division.

19  
20  
21  
22  
23  
24 <sup>72</sup> See LPSCO Wastewater Schedule C-3, page 2; Staff Schedule DWC-WW2, and RUCO Wastewater  
25 Division Schedule RBM-1.

26 <sup>73</sup> See LPSCO Wastewater Schedule C-3, page 2; Staff Schedule DWC-WW2, and RUCO Wastewater  
Division Schedule RBM-1.

1 V. **RATE DESIGN**

2 A. **Water Division**

3 Q. **WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES FOR**  
4 **WATER SERVICE?**

5 A. The Company's proposed rates are:

6 **MONTHLY SERVICE CHARGES**

7	5/8" x 3/4" Meters	\$13.88
8	3/4" Meters	\$13.88
9	1" Meters – Residential Only	\$31.20
10	1" Meters	\$34.70
11	1 1/2" Meters	\$69.40
12	2" Meters	\$111.04
13	3" Meter	\$222.08
14	4" Meters	\$347.00
15	6" Meter	\$694.00
16	6" Meter – Bulk Resale Only	\$575.00
17	8" Meters	\$1,110.40
18	10" Meters	\$1,596.20
19	12" Meters	\$2,984.20
20	Construction	\$0.00

21 **COMMODITY RATES**

22	5/8" X 3/4" Meters (Residential)	1 to 3,000	\$ 1.00
23		3,001 to 11,000	\$ 1.95
24		11,001 to 30,000	\$ 2.94
25		Over 30,000	\$ 3.36
26	5/8" X 3/4" Meters	1 to 9,000	\$ 1.95

1		Over 9,000	\$ 3.36
2	¾" Meters (Residential)	1 to 3,000	\$ 1.00
3		3,001 to 11,000	\$ 1.95
4		11,001 to 30,000	\$ 2.95
5		Over 30,000	\$ 3.36
6	¾" Meters	1 to 20,000	\$ 1.95
7		Over 20,000	\$ 3.36
8	1" Meters (Residential)	1 to 5,000	\$ 1.00
9		5,001 to 20,000	\$ 1.95
10		20,001 to 40,000	\$ 2.95
11		Over 40,000	\$ 3.36
12	1" Meters	1 to 20,000	\$ 1.95
13		Over 20,000	\$ 3.36
14	1 ½" Meters	1 to 40,000	\$ 1.95
15		Over 40,000	\$ 3.36
16	2" Meters	1 to 60,000	\$ 1.95
17		Over 60,000	\$ 3.36
18	3" Meters	1 to 120,000	\$ 1.95
19		Over 120,000	\$ 3.36
20	4" Meters	1 to 180,000	\$ 1.95
21		Over 180,000	\$ 3.36
22	6" Meters	1 to 360,000	\$ 1.95
23		Over 360,000	\$ 3.36
24	8" Meters	1 to 650,000	\$ 1.95
25		Over 650,000	\$ 3.36
26	8" Meters (Bulk Resale Only)	All Gallons	\$ 1.65

1	10" Meters	1 to 940,000	\$ 1.95
2		Over 940,000	\$ 3.36
3	12" Meters	1 to 1,200,000	\$ 1.95
4		Over 1,200,000	\$ 3.36
5	Construction Water	All Gallons	\$ 3.36

6

7 **Q. WHAT IS THE AVERAGE MONTHLY BILL FOR THE 5/8 X 3/4 INCH**  
8 **METERED CUSTOMERS UNDER PRESENT RATES?**

9 A. As shown on Rebuttal Schedule H-2, page 1, the average monthly bill under  
10 present rates for a 3/4 inch residential customer (the largest customer class) using  
11 an average 9,320 gallons is \$24.33.

12 **Q. WHAT WILL BE THE AVERAGE 3/4 INCH RESIDENTIAL CUSTOMER**  
13 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

14 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
15 for a 3/4 inch residential customer using an average 9,320 gallons is \$28.07 – a  
16 \$3.91 increase over the present monthly bill or a 16.08 percent increase.

17 **Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE**  
18 **DIRECT FILING?**

19 A. The Company has made two changes to the basic rate design it proposed in its  
20 direct filing. First, the Company has lowered the 3<sup>rd</sup> tier break over points for the  
21 5/8x3/4 inch and 3/4 inch metered residential customers from 30,000 gallons to  
22 20,000 gallons. Second, the 3<sup>rd</sup> tier break-over point for the 1 inch metered  
23 residential customers was lowered from 40,000 gallons to 30,000 gallons.  
24 These changes were necessary, in part, to prevent customers on larger meter sizes  
25 from paying less than these customers at higher levels of water use. The issue is  
26

described as billing cross-over between meter sizes and customer classes and I will discuss this more later in my testimony.

**Q. WAS BILLING AMOUNT CROSS-OVER A PROBLEM IN THE COMPANY'S DIRECT FILING RATE DESIGN?**

A. No. The problem did not exist in the direct filing rates. As I described in my direct testimony (at pages 21-22), I had to deviate from my intended design for the 3<sup>rd</sup> tier break-over point for the 1 inch residential customers because of a potential billing cross-over issue. Due to a lower recommended increase in this rebuttal filing, it was necessary to make changes to the break-over points to prevent billing cross-over.

**Q. IS THE REVENUE RECOVERY FROM THE MONTHLY MINIMUMS AND THE COMMODITY RATES SIMILAR UNDER THE REBUTTAL RATE DESIGN AS IT WAS IN THE DIRECT FILING RATE DESIGN?**

A. Yes. Revenue recovery is roughly the same. Below is a comparison between the Company direct filing rates and its rebuttal rates.

Table 1

<u>Category</u>	<u>Rebuttal % Recovery</u>	<u>Direct % Recovery</u>	<u>Difference</u>
Monthly Minimums	40.54%	40.57%	-0.03%
Lowest Commodity Rate	5.18%	4.95%	0.23%
2 <sup>nd</sup> Lowest Commodity Rate	21.81%	21.36%	0.45%
2 <sup>nd</sup> Highest Commodity Rate	5.37%	7.30%	-1.93%
Highest Commodity Rate	27.10%	25.83%	1.27%
Total Recovery from Commodity Rates	59.46%	59.43%	0.03%
Recovery from two highest cost commodity rates	32.47%	33.13%	0.66%
Recovery from two lowest cost commodity rates	26.99%	26.31%	-0.68%

1 **Q. IS THE COMPANY'S RATE DESIGN CONVERSATION ORIENTED?**

2 A. Yes, in several ways. First, as I mentioned above, we use an inverted tier rate  
3 design, meaning the more water used, the higher the per unit cost of water  
4 (increasing commodity rates), with which all parties are in agreement should be the  
5 case. In fact, LPSCO has proposed a fourth tier for small residential customers of  
6 water or more per month. To my knowledge, there are only a few other water  
7 utilities in the state with more than 3 tiers and this is certainly the first time this has  
8 been proposed by a Liberty utility.<sup>74</sup>

9 **Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF**  
10 **AND RUCO.**

11 A. Like the Company, Staff and RUCO are proposing an inverted four tier rate design  
12 for the 1 inch and smaller residential customers and an inverted two tier design for  
13 the 1 inch and smaller non-residential (commercial, irrigation, and multi-family)  
14 customers and larger meter sizes for all customer classes.<sup>75</sup> Staff's and RUCO's  
15 break-over points also increase with meter size. The first tier commodity rate for  
16 the 1 inch and smaller non-residential customers, and larger meter sizes all  
17 customer classes is the same as the second tier of the 1 inch and smaller residential  
18 customers. The second tier of the larger meter sizes for all customer classes is the  
19 same as the fourth tier of the 1 inch and smaller residential customers.<sup>76</sup> Both Staff  
20 and RUCO propose changes to one of more of the current break-over points.

21  
22  
23  
24 <sup>74</sup> See Decisions 71410 (Global Water – Santa Cruz Water, et. al.) and Decision 71878 (Paradise Valley  
25 Water).

26 <sup>75</sup> See Staff Errata Schedule DWC-W-1 and RUCO Schedule RBM W RD-1.

<sup>76</sup> *Id.*

1 **Q. WHAT ARE THE PRIMARY DIFFERENCES BETWEEN THE PARTIES**  
2 **ON RATE DESIGN?**

3 A. Staff lowered the monthly minimum charges for the 5/8 inch and 3/4 inch residential  
4 and non-residential customers from \$10.20 to \$10.00; a decrease of 2 percent.  
5 Staff also decreases the monthly minimum charge for the 1 inch residential  
6 customers from \$25.50 to \$25.00. Staff increases the monthly minimum charge for  
7 the 1 inch non-residential customers, but then recommends reductions in the  
8 monthly minimums for the larger meters.

9 **Q. WHY DOES STAFF LOWER THE MONTHLY MINIMUMS FOR THE**  
10 **LARGER METER SIZES?**

11 A. In short, it's how Staff determines the monthly minimums. To explain, I need to  
12 provide some background. Larger meter monthly minimums are typically scaled  
13 based on the flows relative to a 5/8x3/4 inch meter. For example, a 1-1/2 inch  
14 meter flows at 5 times that of a 5/8x3/4 inch meter. Therefore, the monthly  
15 minimum is 5 times the monthly minimum for a 5/8x3/4 inch meter. The current  
16 monthly minimums are scaled and Staff continues to scale the monthly minimums  
17 in the instant case.

18 Since Staff has lowered the monthly minimum charge for a 5/8x3/4 inch  
19 meter from \$10.20 to \$10.00, its proposed larger meter monthly minimums are  
20 lower because Staff is scaling off a lower 5/8x3/4 inch monthly minimum.  
21 For example, Staff's proposed 1-1/2 inch meter monthly minimum is lowered to  
22 \$50.00 (5 times \$10) from the current monthly minimum of \$51.00 (5 times  
23 \$10.20).<sup>77</sup>

24  
25  
26 <sup>77</sup> See Staff Errata Schedule DWC W-1.

1 Q. THANK YOU, MR. BOURASSA. PLEASE CONTINUE.

2 A. The Company also scales the monthly minimums for the larger meters as does  
3 Staff. But, since the Company proposes to increase to the monthly minimums for  
4 the 5/8x3/4, the larger meter size monthly minimums are all higher than current  
5 monthly minimums.

6 Q. IS IT CUSTOMARY TO SCALE THE MONTHLY MINIMUMS FOR THE  
7 LARGER METER SIZES ON THE RELATIVE FLOW FACTORS  
8 COMPARED TO A 5/8x3/4 INCH METER?

9 A. Yes. Since a larger meter has a higher potential demand on the system, it makes  
10 sense to charge more for a larger meter. The relative flow factors are a way of  
11 quantifying the differences in potential demand and, therefore, serve as a basis for  
12 quantifying the monthly minimum that should be paid.

13 Q. ARE THERE CIRCUMSTANCES WHERE WE DEVIATE FROM HIS  
14 PRACTICE?

15 A. Yes. The current and proposed monthly minimums for the 3/4 inch metered  
16 customers in the instant case are an example. Here, the current 5/8x3/4 inch and 3/4  
17 inch monthly minimums are the same even though a 3/4 inch meter flows 1.5 times  
18 that of a 5/8x3/4 inch meter. In cases where the majority of customers are served  
19 by a 3/4 inch meter with relatively few served by 5/8x3/4 inch meters, as is the case  
20 for LPSCO, setting the monthly minimums the same makes sense.

21 Q. DO ALL THE PARTIES PROPOSE A MONTHLY MINIMUM FOR THE 3/4  
22 INCH METER THE SAME AS THEIR PROPOSED 5/8x3/4 INCH METER  
23 MONTHLY MINIMUM?

24 A. Yes.  
25  
26

1 Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE  
2 STAFF RATE DESIGN.

3 A. Staff also proposes to retain the current 2<sup>nd</sup> tier break-over point for the 5/8 inch  
4 and 3/4 inch meters of 9,000 gallons which is lower than the Company's proposed  
5 11,000 gallon break-over point. For the 3<sup>rd</sup> tier break-over point, Staff proposes  
6 20,000 gallons which is the same as the Company now proposes. For the 1 inch  
7 residential customer, Staff proposes retain the current 2<sup>nd</sup> tier break-over point of  
8 20,000 gallons as does the Company. However, for the 3<sup>rd</sup> tier break-over point,  
9 Staff proposes a higher break-over point of 37,000 gallons compared to the  
10 Company proposed 30,000 gallons break-over point.

11 Staff also generally reduces the break-over points for the larger meter sizes.  
12 An exception is the non-residential 1 inch meter where Staff increases the current  
13 break-over point of 20,000 gallons to 25,000 gallons. The Company retains the  
14 current break-over points for the larger meter sizes.

15 Finally, Staff proposes to reduce the first tier commodity rate for the 1 inch  
16 and smaller residential meters from the current rate of \$1.00 per thousand gallons  
17 to \$0.75 per thousand gallons. Staff also reduces the first tier commodity rate for  
18 the 1 inch and smaller non-residential meters and for larger meter sizes for all  
19 classes from the current rate of \$1.91 per thousand gallons to \$1.75 per thousand  
20 gallons. By contrast, the Company leaves the first tier commodity rate for the 1  
21 inch and smaller residential meters at the current rate of \$1.00 per thousand  
22 gallons. For of the 1 inch and smaller non-residential meters and for larger meter  
23 sizes for all classes of customers, the Company increases the first tier commodity  
24 rate from the current rate of \$1.91 per thousand gallons to \$1.95 per thousand  
25 gallons.

1 Q. THANK YOU. WHAT ABOUT THE DIFFERENCES BETWEEN THE  
2 COMPANY AND RUCO RATE DESIGN?

3 A. RUCO proposes a \$12.00 monthly minimum for the 5/8 inch and 3/4 inch meters;  
4 an increase of 17.6 percent over the current monthly minimum of \$10.20. Like the  
5 Company, RUCO increases the monthly minimums for all meter sizes. As with  
6 both the Staff and Company rate designs, the RUCO monthly minimums are scaled  
7 off the monthly minimum for the 5/8x3/4 inch meter. Since RUCO proposes an  
8 increase to the 5/8x3/4 inch meter monthly minimums RUCO's proposed monthly  
9 minimums are higher than the current monthly minimums for the larger meters.

10 RUCO proposes to retain the current 2<sup>nd</sup> tier break-over point for the  
11 5/8 inch and 3/4 inch meters of 9,000 gallons which is lower than the Company's  
12 proposed 11,000 gallon break-over point. For the 3<sup>rd</sup> tier break-over point, RUCO  
13 proposes 15,000 gallons which is lower than the Company's proposed 20,000  
14 gallons. For the 1 inch residential customer, RUCO proposes a 2<sup>nd</sup> tier break-over  
15 point of 15,000 gallons which is lower than the current 20,000 gallons break-over  
16 point and lower the Company's proposed 20,000 gallons. For the 3<sup>rd</sup> tier break-  
17 over point, RUCO proposes a higher break-over point of 35,000 gallons compared  
18 to the Company's proposed 30,000 gallons break-over point.

19 RUCO also generally reduces the break-over points for the larger meter  
20 sizes. The exception is for the non-residential where RUCO increases the break-  
21 over point from 20,000 gallons to 22,500 gallons.

22 Finally, RUCO proposes to reduce the first tier commodity rate for the  
23 1 inch and smaller residential meters from the current rate of \$1.00 per thousand  
24 gallons to \$0.84 per thousand gallons. RUCO also reduces the first tier commodity  
25 rate for 1 inch and smaller non-residential meters and for the larger meter sizes for  
26 all classes from the current rate of \$1.91 per thousand gallons to \$1.50 per

1 thousand gallons. By contrast, the Company leaves the first tier commodity rate  
2 for the 1 inch residential and smaller residential meters at the current rate of \$1.00  
3 per thousand gallons. For of the 1 inch and smaller non-residential meters and for  
4 larger meter sizes for all classes, the Company increases the first tier commodity  
5 rate from the current rate of \$1.91 per thousand gallons to \$1.95 per thousand  
6 gallons.

7 **Q. CAN YOU SUMMARIZE THE EFFECT OF THE DIFFERENCES**  
8 **BETWEEN THE COMPANY AND STAFF AND/OR RUCO?**

9 A. Yes. There are a number of effects of which I discuss later in my testimony.  
10 First, the Staff and RUCO rate designs contain serious flaws which are a direct  
11 result of how they set the break-over points and how they set the commodity rates.  
12 The two major flaws in both the Staff and RUCO designs are 1) a customer on a  
13 larger meter size will pay less than customers on a smaller meter size at the same  
14 level of water use (billing cross-over), and 2) a customer will pay less than the  
15 current bill at a wide range of water usage levels.

16 Second, the revenue recovery is unbalanced in both the Staff and RUCO  
17 rate designs. Too much revenue is being recovered from commodity rates and too  
18 much revenue is being recovered from the higher priced commodity rates.  
19 This will lead to increased revenue instability that diminishes the Company's  
20 ability to actually recover its cost of service. Diminishing the Company's ability to  
21 recover its cost of service is not in the public interest.

22 **Q. HAS EITHER PARTY EXPLAINED THE RATIONALE FOR THEIR**  
23 **PROPOSED CHANGES TO THE CURRENT BREAK-OVER POINTS**  
24 **AND/OR THE CHANGES TO THE COMMODITY RATES?**

25 A. No.  
26

1 **Q. FROM A BIG PICTURE VIEWPOINT, DOES THE STAFF AND/OR RUCO**  
2 **RATE DESIGN APPEAR REASONABLE?**

3 A. No. Staff recommends an overall revenue increase of approximately 10 percent,  
4 yet the average customer bill impact for the largest customer class (3/4 inch  
5 residential) will *decrease*. The same is true for RUCO. RUCO recommends an  
6 overall revenue increase of approximately 10 percent, yet the the average customer  
7 bill impact for the largest customer class (3/4 inch residential) will also *decrease*.  
8 That means that water is becoming cheaper for the average 3/4 inch residential  
9 customer (the largest customer class) even though Staff is recommending an  
10 overall rate increase. This is not reasonable, as I explain below, because of the risk  
11 it puts on the Company. It also sends the anti-conservation message that water is  
12 getting cheaper, as I also discuss in more detail below.

13 a. **Billing Cross Over Issue**

14 **Q. PLEASE EXPLAIN IN MORE DETAIL THE SERIOUS FLAWS IN THE**  
15 **STAFF AND/OR RUCO RATE DESIGNS YOU MENTIONED EARLIER?**

16 A. Let's start with the billing cross-over issue. Both the Staff and RUCO proposed  
17 rate designs produces circumstances where there are cross-overs in the bill amounts  
18 between customer classes.

19 **Q. WHAT DO YOU MEAN BY "CROSS-OVERS," MR. BOURASSA?**

20 A. This phrase describes a situation where a customer on a larger meter size will pay  
21 less than a customer on a smaller meter size at a given level of water usage.  
22 In designing rates, we should generally try to avoid rate designs that create these  
23 situations. Customers may pay the same amounts at certain levels of usage, but not  
24 less. If a water conservation pricing message is to be consistent, then customers at  
25 higher usage levels should not pay less than others for the same amount of water  
26 usage.

1 Q. THANK YOU. PLEASE CONTINUE.

2 A. An example of where a cross-over occurs under the Staff rate design is for a 1 inch  
3 meter commercial customer and a ¾ inch residential customer. A 1 inch non-  
4 residential customer will pay less than a ¾ inch residential customer starting at  
5 between 20,000 and 25,000 gallons and above under the Staff rate design.  
6 At 25,000 gallons the 1 inch non-residential customer pays \$71.43 and the ¾ inch  
7 residential customer pays \$81.80; \$10.37 less.

8 Q. DO YOU HAVE AN EXHIBIT SHOWING OCCURANCES OF THESE  
9 CROSS-OVERS UNDER THE STAFF RATE DESIGN?

10 A. Yes. Attached hereto as Rebuttal Exhibit TJB-RB1, are charts of the bill amounts  
11 for various customer classes under all the parties' rate designs. At page 1 of the  
12 exhibit is a chart for the Company rate design. At page 2 of the exhibit is a chart  
13 for the Staff rate design. At page 3 of the exhibit is a chart for the RUCO rate  
14 design. The exhibit shows that there are a number of instances where customers on  
15 larger meter sizes will see a lower bill than customers on smaller meter sizes under  
16 both the Staff and RUCO rate designs. There are no instances of bill cross-over  
17 under the Company's rate design.

18 b. Customers Pay Less for Water Under the Staff and RUCO  
19 rates

20 Q. PLEASE EXPLAIN IN MORE DETAIL THE FLAW THAT CUSTOMERS  
21 WILL PAY LESS UNDER THE STAFF/AND/OR RUCO RATES .

22 A. Staff and RUCO rate designs produces circumstances where a customer will pay  
23 less under their proposed rates than they currently do. For example, a 1 1/2 inch  
24 customer using 37,000 gallons of water will pay \$6.92 less under the Staff  
25 proposed rates than he/she currently pays. Similarly, a 1-1/2 inch customer using  
26

1 XX gallons of water will pay \$X.XX less under the RUCO rates than he/she  
2 currently pays.

3 **Q. CAN YOU EXPLAIN WHY THIS HAPPENS UNDER THE STAFF**  
4 **PROPOSED RATE DESIGN?**

5 A. Yes. Since Staff lowers the monthly minimum for the larger metered customers  
6 and lowers the first tier commodity rate as well, billings to the larger metered  
7 customers will be less than the current billing up to levels of usage exceeding  
8 Staff's recommended break-over point.

9 **Q. DO YOU HAVE AN EXHIBIT SHOWING THE BILL COMPARISON FOR**  
10 **THE LARGER METER SIZES USING THE STAFF PROPOSED RATES?**

11 A. Yes. Included in Rebuttal Exhibit TJB-RB2 are bill comparisons showing the  
12 current and Staff proposed bill amounts at increasing levels usage for the 1-1/2  
13 inch and larger meter sizes (up to 8 inch). Page 1 of the exhibit shows the bill  
14 comparison for the 1-1/2 inch meter. The bill under Staff's proposed rates at zero  
15 usage is \$1.00 less than the current bill. At Staff's proposed break-over point of  
16 37,000 gallons the current bill is greater than the Staff proposed bill by \$6.92.  
17 It isn't until the customer uses more than 40,000 gallons does the current bill starts  
18 to be less than the Staff proposed bill. It is more dramatic for a 4 inch metered  
19 customer. Turning to page 3 of the exhibit, you will find, the bill under Staff's  
20 proposed rates a zero usage is \$5.00 less than the current bill. At Staff's proposed  
21 break-over point of 140,000 gallons the current bill is greater than the Staff  
22 proposed bill by \$21.00. It isn't until the customer uses more than 153,000 gallons  
23 does the current bill starts to be less than the Staff proposed bill.

24 **Q. DOES THE FACT THAT THE PROPOSED BILLS WILL BE LESS THAN**  
25 **THE CURRENT BILLS REFLECT A GOOD RATE DESIGN?**

26 A. No. It does not send the right water conservation message to customers.

1 Q. PLEASE EXPLAIN WHY THIS HAPPENS UNDER THE RUCO  
2 PROPOSED RATE DESIGN.

3 A. RUCO lowers the current 1<sup>st</sup> tier commodity rate to \$1.50 from \$1.91. Although  
4 RUCO increase the monthly minimum, customers will Under the RUCO rate  
5 design, the current customer bill will be less than RUCO proposed bill in a  
6 narrower range of usage levels. The bill comparison for a 1-1/2 inch non-  
7 residential meter as shown on page 5 of the exhibit illustrates what I mean. As you  
8 will find, the RUCO proposed bill will be less than the current bill starting at a  
9 usage level of 22,000 gallons and continue to be less than the current bill until  
10 reaching a usage level of 49,000 gallons. I have included the RUCO bill  
11 comparisons for meter sizes up to 8 inch in the exhibit. At 37,000 gallons of usage  
12 for a 1-1/2 inch non-residential customer (see page 5), the customer pays \$6.17 less  
13 than the current bill.

14 c. Staff and RUCO Rate Design Provide Less Revenue  
15 Stability

16 Q. PLEASE DISCUSS THE CONCERNS OVER REVENUE STABILITY AND  
17 THE STAFF AND/OR RUCO RATE DESIGNS.

18 A. The Staff rate design will provide less revenue stability than the Company rate  
19 design, the risk I mentioned earlier. Staff's design recovers less than 32 percent of  
20 revenues from the monthly minimums, and then recovers a far greater portion of  
21 the revenue requirement from the two highest commodity rates than is reasonable.  
22 This is a surprisingly risky rate design and a big step back from some of the recent  
23 progress we have made, at least with respect to the allocation between monthly  
24 minimums and commodity revenue recovery.<sup>78</sup> Below is a comparison between  
25 the Company's rebuttal rates and the Staff rates in terms of revenue recovery.

26 <sup>78</sup> See Pima Utility Company, Docket No. W-02199A-11-0329; Rico Rico Utilities, Docket No. WS-

Table 2

Category	LPSCO % Recovery	Staff % Recovery	Difference
Monthly Minimums	40.54%	32.24%	-8.30%
Lowest Commodity Rate	5.18%	3.30%	-1.88%
2 <sup>nd</sup> Lowest Commodity Rate	21.81%	19.95%	-1.86%
2 <sup>nd</sup> Highest Commodity Rate	5.37%	9.72%	4.35%
Highest Commodity Rate	27.10%	34.79%	7.69%
Total Recovery from Commodity Rates	59.46%	67.76%	8.30%
Recovery from two highest cost commodity rates	32.47%	44.51%	12.04%
Recovery from two lowest cost commodity rates	26.99%	34.85%	7.86%

The Staff rate design will lead to even greater amounts of revenue erosion when conservation occurs. One reason for this instability is a greater portion the revenue requirement is recovered via the commodity rates under the Staff rate design than the Company rate design. When conservation occurs, the commodity revenues will decrease to a greater extent under the Staff rate design compared to the Company rate design.

**Q. WHY IS THAT THE CASE?**

A. When more revenues are expected to be recovered from the commodity rates, a greater amount of revenues are lost. This is because the commodity rates must necessarily be higher when a greater proportion of revenues are recovered from the commodity rates as opposed to the monthly minimums. With each gallon of water being priced at a higher cost, the dollar loss from each gallon lost means more revenues are lost. Additionally, a much greater portion of the commodity revenues

02679A-12-0196.

1 are recovered from the highest priced commodity rates under the Staff rate design  
2 than under the Company rate design. This also translates to more revenue  
3 instability.

4 **Q. WHY DO THESE SCENARIOS INCREASE REVENUE INSTABILITY**  
5 **AND THE RISK OF REVENUE EROSION?**

6 A. A loss of a gallon of water at the higher commodity rates means more revenue loss  
7 than the loss of a gallon of water at the lower commodity rate. The larger water  
8 users typically have the greatest amount of discretionary water and the greatest  
9 amount of conservation can be expected to occur from these customers as they will  
10 see the highest cost commodity rates.

11 **Q. IF THE GOAL IS TO ACHIEVE CONSERVATION THEN WHY NOT**  
12 **CHARGE THESE CUSTOMERS AS MUCH AS POSSIBLE FOR THEIR**  
13 **WATER USE?**

14 A. Conservation is not the only goal of a sound rate design. Equally important is  
15 ensuring the utility recovers its cost of service (revenue requirement), revenue  
16 stability. These two goals must be balanced (along with the goal of avoiding cost  
17 of service inequities).<sup>79</sup> The Company's proposed rate design promotes  
18 conservation by charging the higher water users more per unit of water than the  
19 low water users. The higher cost of water sends a conservation pricing signal to  
20 the higher water users. This is consistent with the approach the Commission has  
21 taken on rate design for more than a decade now, at least in my experience.

22 On the other hand, the Company's rate design provides for more revenue  
23 stability by providing a better balance of revenue recovery between the monthly  
24 minimums and the commodity rates. Further, with respect to the commodity

25 <sup>79</sup> Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water  
26 Works Association, p.4.

1 revenues the Company's rate design provides a better balance of revenue recovery  
2 across all the commodity rates.

3 **Q. WHAT DO YOU MEAN BY A BETTER BALANCE ACROSS THE**  
4 **COMMODITY RATES?**

5 A. Balance refers to how evenly the commodity revenue is recovered between the  
6 lowest priced commodity rate and the highest priced commodity rates. "Perfect"  
7 balance would be recovering equal amounts of revenues from the lowest priced  
8 commodity rates and the highest priced commodity rates.

9 That said, Table 2, above, shows that a much greater proportion of the  
10 revenues are recovered from the 2 highest cost commodity rates under the Staff  
11 rate design than under the Company rate design. Compare 32.46 percent for the  
12 Company and 44.51 percent for Staff. Table 2 also shows that a much smaller  
13 proportion of the revenues are recovered from the 2 lowest cost commodity rates  
14 under the Staff rate design than under the Company rate design. Compare 26.97  
15 percent for the Company and 34.85 percent for Staff. These differences reflect  
16 less balance in the Staff rate design.

17 The difference between the Company and Staff with respect to the balance  
18 in the commodity rates can also be found by comparing the multiples of the higher  
19 cost commodity rates compared to the lowest priced commodity rate. The higher  
20 multiples also reflect the fact that more commodity revenues are needed because  
21 less revenue is being recovered from the monthly minimums. In other words, the  
22 commodity rates need to be even higher in order to make up revenues not being  
23 recovered from the monthly minimums. The higher multiples also reflect the  
24 greater proportion of the commodity revenue recovery from the higher priced  
25 commodity rates under the Staff rate design as compared to the Company rate  
26

1 design. Below is a table showing the multiples of the higher priced commodity  
2 rates with respect to the lowest commodity rates.

3 Table 3

4 <u>Category</u>	<u>LPSCO Multiple</u>	<u>Staff Multiple</u>
5 Lowest Commodity Rate	1.0	1.0
6 2 <sup>nd</sup> Lowest Commodity Rate	2.0	2.3
7 2 <sup>nd</sup> Highest Commodity Rate	3.0	4.7
8 Highest Commodity Rate	3.4	5.3

9  
10 Under the Staff rate design, the multiples to the lowest priced commodity  
11 rate are much greater than under the Company's rate design. Staff's highest priced  
12 commodity rate is \$4.00 and its lowest priced commodity rate is \$0.75. Thus, the  
13 highest priced commodity rate is 5.3 times that of the lowest priced commodity  
14 rate. Compare that to the Company multiple of 3.4. This merely confirms what we  
15 already know from my earlier testimony, that Staff is proportionately recovering  
16 more from the higher priced commodity rates than is the Company. In other  
17 words, revenue recovery is shifted to the higher priced commodity rates which  
18 leads to increased revenue instability.

19 **Q. DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH**  
20 **RUCO'S PROPOSED RATE DESIGN?**

21 **A.** Yes. RUCO's rate design recovers about 38.6 percent of revenues from the  
22 monthly minimums. This is much better than Staff's and closer to the Company's  
23 40.58 percent but the objective of the Company's was to reach the 40 percent level  
24 in this case.

1 Q. WHY 40 PERCENT?

2 A. I my view, because of the high fixed cost nature of water utility costs of service,  
3 revenue recovery from the monthly minimums should be closer to 50 percent.  
4 40 percent is a step towards than level. Even RUCO supports moving rate designs  
5 in this direction and has testified that RUCO has been recommending a fixed  
6 monthly charge revenue recovery at approximately 45 percent in recent cases.<sup>80</sup>

7 Q. THANK YOU, PLEASE CONTINUE.

8 A. Like the Staff rate design, the RUCO rate design recovers a far greater portion of  
9 the revenue requirement from the two highest commodity rates than under the  
10 Company's rates, increasing the risk of revenue erosion. Below is a comparison  
11 between the Company's rebuttal rates and the RUCO rates in terms of revenue  
12 recovery.

13 Table 4

14 <u>Category</u>	<u>LPSCO % Recovery</u>	<u>RUCO % Recovery</u>	<u>Difference</u>
15 Monthly Minimums	40.54%	38.55%	-1.99%
16 Lowest Commodity Rate	5.18%	4.55%	-0.63%
17 2 <sup>nd</sup> Lowest Commodity Rate	21.81%	14.81%	-7.00%
18 2 <sup>nd</sup> Highest Commodity Rate	5.37%	7.95%	2.58%
19 Highest Commodity Rate	27.10%	34.15%	7.09%
20 Total Recovery from Commodity Rates	59.46%	61.45%	1.99%
21 Recovery from two highest cost commodity rates	32.47%	42.10%	9.63%
22 Recovery from two lowest cost commodity rates	26.99%	19.36%	-7.63%

23  
24  
25  
26 <sup>80</sup> Mease Dt. at 49.

1 Like the Staff rate design, the RUCO rate design is less balanced. The RUCO rate  
2 design recovers over 42 percent of the commodity revenues from the two highest  
3 commodity rates compared to only about 19 percent from the two lowest  
4 commodity rates. Compare this to the Company's 32.47 percent from the two  
5 highest commodity rates and 26.97 percent from the two lowest commodity rates.  
6 Just as I explained earlier, this will lead to ever greater amounts of revenue  
7 instability (revenue erosion) when conservation occurs.

8 **Q. WHAT ARE THE COMMODITY RATE MULTIPLES UNDER THE RUCO**  
9 **RATE DESIGN?**

10 A. Like Staff's, they are greater than those under the Company's rate design, but less  
11 so. It makes sense that RUCO's multiples are lower than Staff's because RUCO is  
12 proposing more revenue recovery from the monthly minimums, meaning less  
13 revenue has to be made up through the commodity rates. But, RUCO still has a  
14 much greater multiple than the Company at the highest priced commodity rate.

15 Below is a table comparing the multiples of the higher priced commodity  
16 rates for the Company rate design and RUCO rate design.

17 Table 5

18 <u>Category</u>	<u>LPSCO Multiple</u>	<u>RUCO Multiple</u>
19 Lowest Commodity Rate	1.0	1.0
20 2 <sup>nd</sup> Lowest Commodity Rate	2.0	1.8
21 2 <sup>nd</sup> Highest Commodity Rate	3.0	3.2
22 Highest Commodity Rate	3.4	4.5

23  
24 RUCO's highest priced commodity rate is 4.5 times its lowest commodity rate.  
25 Compare this to the Company multiple of 3.4. This confirms what I described  
26 earlier, that there will be a greater amount of revenue recovery at the highest priced

1 commodity rate under the RUCO design. This, in turn, means a greater risk of  
2 revenue erosion.

3 d. Unwarranted Revenue Shifting Occurs under the Staff and  
4 RUCO rate Designs

5 Q. ANY OTHER CONCERNS WITH THE STAFF AND/OR RUCO RATE  
6 DESIGNS?

7 A. Yes. Staff proposes to lower the first tier commodity rate for the small  
8 residential meters from \$1.00 to \$0.75; a 25 percent reduction.<sup>81</sup> Staff also reduces  
9 the current \$1.91 2<sup>nd</sup> tier commodity rate for the 1 inch and smaller residential  
10 meters and the 1<sup>st</sup> tier commodity rate for the non-residential meters to \$1.75, an  
11 8.3 percent reduction.<sup>82</sup> I am compelled to continue to testify that reducing the  
12 commodity rates sends the wrong conservation signal to customers – that water is  
13 cheaper. The Staff proposed rates actually results in rate decreases at the average  
14 usage (-7.79 percent) and the median usage (-7.63 percent) for the ¾ inch  
15 residential customers; the largest customer class. In only the rarest of instances  
16 should the Commission send the price signal to customers that water is becoming  
17 cheaper in the desert, especially in a community where the average ¾ inch  
18 residential user consumes over 9,000 gallons per month.

19 RUCO also proposes to reduce the first tier commodity rate for the smaller  
20 residential meters. RUCO proposes to reduce the first tier commodity rate from  
21 \$1.00 to \$0.84; a 16 percent reduction.<sup>83</sup> And, like Staff, RUCO reduces the  
22 current \$1.91 2<sup>nd</sup> tier commodity rate for the 1 inch and smaller residential meters  
23 and the 1<sup>st</sup> tier commodity rate for the non-residential meters to \$1.50; a  
24

25 <sup>81</sup> See Staff Schedule DWC W-1.

26 <sup>82</sup> *Id.*

<sup>83</sup> See RUCO Schedule RBM RD-1.

1 21.5 percent reduction.<sup>84</sup> As a result, like the Staff proposed rates, the RUCO  
2 proposed rates result in rate decreases at the average usage (-4.39 percent) and the  
3 median usage (-1.45 percent) for the ¾ inch residential customers. Again, this  
4 sends the wrong pricing signal to customers.

5 **Q. DO THE STAFF AND RUCO RATE DESIGNS ALSO SHIFT REVENUE**  
6 **RECOVERY AWAY FROM THE RESIDENTIAL CUSTOMER CLASSS**  
7 **AND ON TO THE OTHER CUSTOMERS CLASSES?**

8 A. Yes. Under the current rate design, the proportion of revenues recovered from the  
9 residential class is about 57.9 percent. Under the Staff rate design, it is about 54.9  
10 percent; a decrease of about 3.0 percent. Under the RUCO rate design, it is about  
11 55.8 percent, a decrease of about 2.1 percent.

12 **Q. WHY IS THIS AN ISSUE?**

13 A. From a cost of service standpoint, this revenue shift is not warranted. In the prior  
14 rate case for LPSCO it was shown that the 1 inch and smaller metered customers,  
15 which is made is made up of primarily residential customers (nearly 96 percent),  
16 were already paying less than their cost of service; even under the rates adopted in  
17 the last rate case.<sup>85</sup> A further shift in revenues away from the residential class is  
18 unwarranted from a cost of service standpoint.

19 **Q. CAN YOU EXPLAIN WHY REVENUE EROSION IS A PROBLEM?**

20 A. Yes. Revenue erosion is bad for utilities, customers and regulators for several  
21 reasons. First, collecting the revenue requirement is a significant problem for AZ  
22 water utilities. Attached as **Exhibit TJB-RB3** is a recent issue of Regulatory  
23 Reports (ed. 2013-1, June 2013). In the issue (at page 7) it was reported that a  
24

---

25 <sup>84</sup> *Id.*

26 <sup>85</sup> Mr. Bourassa has reviewed the cost of service study from Docket No. W-01427A-13-0043 and finds that  
using the rates adopted in the rate case the smaller metered customers paid less than their cost of service.

1 study of 45 water utility rate cases completed since December of 2007 shows the  
2 vast majority of these utilities did not achieve their authorized revenue requirement  
3 in the year following the decision. The Commission should strive for companies to  
4 collect the revenue it authorizes, and a rate design that allows for that recovery is a  
5 key component.

6 Second, revenue erosion, or the inability to collect the authorized revenues,  
7 leads to more frequent rate cases. At least half of the rate increase for Rio Rico  
8 Utilities in its recent rate case was driven by revenue erosion.<sup>86</sup> It should be  
9 obvious that if a company is authorized \$10 in revenue but can only collect \$8, the  
10 utility needs to return to the Commission to ask for additional revenue increases.  
11 More frequent rate cases due to revenue erosion never makes customers, the  
12 Commission or the utility happy; customers don't like paying higher rates, the  
13 Commission doesn't like imposing higher rates on customers, and utilities spend a  
14 lot of money on rate cases only to end up with unhappy customers.  
15 The Commission recently recognized this in a decision for Arizona Water  
16 Company finding that "The Commission understands that a consistent pattern of  
17 declining usage, and the diminished revenues that follow, could jeopardize AWC's  
18 ability to recover its cost of service, which is contrary to the best interests of AWC,  
19 AWC's customers, and the Commission."<sup>87</sup> This is clearly a significant concern.

20 **Q. DOES STAFF RECOGNIZE THAT INVERTED TIER RATES CAUSE**  
21 **CUSTOMERS TO CONSERVE?**

22 **A.** Yes. In the another recent rate case for Arizona Water, the Staff witness, Mr. Steve  
23 Olea, explained why Staff did not oppose a declining usage adjustment and  
24 acknowledged that Staff has promoted the implementation and continued use of

25 <sup>86</sup> Direct Testimony of Greg Sorenson at pages 6 and 7, Docket No. WS-02676A-12-0196.

26 <sup>87</sup> Decision No. 73736, Page 71, Lines 3-5.

1 inverted block rates because Staff believes they cause ratepayers to conserve.<sup>88</sup>  
2 He also noted that Arizona Department of Water Resources ("ADWR") and the  
3 Commission have been approving water conservation tariffs as Best Management  
4 Practices ("BMPs") that also lead to more efficient use of water.<sup>89</sup> Finally, he  
5 noted that he believed that AWC customers would use less water than in the test  
6 year.

7 **Q. HOW MANY BEST MANAGEMENT PRACTICES HAS THE COMPANY**  
8 **IMPLEMENTED?**

9 A. Currently, LPSCO has implemented 5 BMP's and is agreeing to implement an  
10 additional 5 BMP's as recommended by Staff.

11 **Q. CAN YOU PLEASE SUMMARIZE WHY THE COMMISSION SHOULD**  
12 **APPROVE THE COMPANY'S PROPOSED WATER RATE DESIGN?**

13 A. Because it provides a greater opportunity for the Company to recover its cost of  
14 service; something that, as pointed out in the Regulatory Reports research, is not  
15 common in Arizona. Allowing the Company to recover its cost of service makes  
16 for a financially healthy utility and decreases the likelihood of future rate cases  
17 driven by revenue erosion.

18 **Q. WHY IS YOUR RATE DESIGN MORE BALANCED THAN STAFF OR**  
19 **RUCO'S?**

20 A. It provides for more revenue recovery from the monthly minimums than either the  
21 Staff or the RUCO rate designs. This means less revenue recovery from the  
22 commodity rates. When conservation occurs it will have less of an impact on  
23 revenues, reducing the risk of revenue erosion.

---

25 <sup>88</sup> See Responsive Testimony of Steven M. Olea at page 2, Docket No. W-01445A-12-0348.

26 <sup>89</sup> *Id.*

1 Another reason why the Company's proposed rates are more stable than  
2 either Staff's or RUCO's is the recovery of revenues from the commodity rates is  
3 more balanced under the Company's rates. That is, the proportion of commodity  
4 revenue recovery from the highest priced commodity rate is less and revenue  
5 recovery from the lower priced commodity rates is more. When conservation  
6 occurs, it is more likely to occur at the higher usage levels where customers have  
7 the greatest amount of discretionary water and will see the highest priced  
8 commodity rate, its dollar impact per gallon of water loss will be less. This means  
9 less revenue erosion due to conservation.

10 **Q. DOES THE COMPANY EXPECT TO SEE FURTHER WATER**  
11 **CONSERVATION UNDER ITS PROPOSED RATES?**

12 A. Yes. With the exception of the lowest priced commodity rate, all the Company  
13 proposed commodity rates are increased over current levels. The highest priced  
14 present commodity rate is increased the most. This is not true for the Staff and  
15 RUCO designs.

16 A. **Wastewater Division.**

17 **Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES FOR**  
18 **WASTEWATER SERVICE?**

19 A. The Company's proposed rates are:

20 **MONTHLY SERVICE CHARGES**

21 Monthly Residential Service \$ 41.08

22 Multi-Unit Housing - Monthly Per Unit \$ 38.13

23 Commercial:

24 Small Commercial - Monthly Service \$ 69.46

25 Measured Service:

26 Regular Domestic:

1	Monthly Service Charge	\$ 38.88
2	Rate Per 1,000 Gallons of Water	\$ 3.39
3	Restaurants, Motels, Grocery Stores &	
4	Dry Cleaning Establishments:	
5	Monthly Service Charge	\$ 38.88
6	Rate Per 1,000 Gallons of Water	\$ 4.52
7	Wigwam Resort:	
8	Monthly Rate - Per Room	\$ 38.13
9	Main Hotel Facilities - Per Month	\$1,509.88
10	Schools - Monthly Service Rates:	
11	Elementary Schools	\$1,026.78
12	Middle Schools	\$1,207.99
13	High Schools	\$1,207.99
14	Community College	\$1,872.38
15	Effluent	Market Rate

17 **Q. WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUSTOMER MONTHLY**  
18 **BILL UNDER THE NEW RATES?**

19 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
20 for a residential customer is \$40.97 – a \$1.98 increase over the present monthly bill  
21 or a 5.08 percent increase

22 **Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGNS OF STAFF**  
23 **AND RUCO?**

24 A. First I should note the RUCO proposed rates do not produce the RUCO  
25 recommended revenue requirement. The revenues generated by the RUCO  
26 proposed rates are about \$20,000 short of RUCO proposed revenue requirement.

1 That said, all of the parties recommend similar rate designs for the wastewater  
2 division. Further, all of the parties spread their respective recommended revenue  
3 increases evenly across all classes. As a result, there is nothing really in dispute on  
4 the wastewater side of rate design

5 **B. Miscellaneous Charges**

6 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**  
7 **STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE**  
8 **INSTALLATION CHARGES?**

9 **A. No. The Company and Staff are in agreement.**

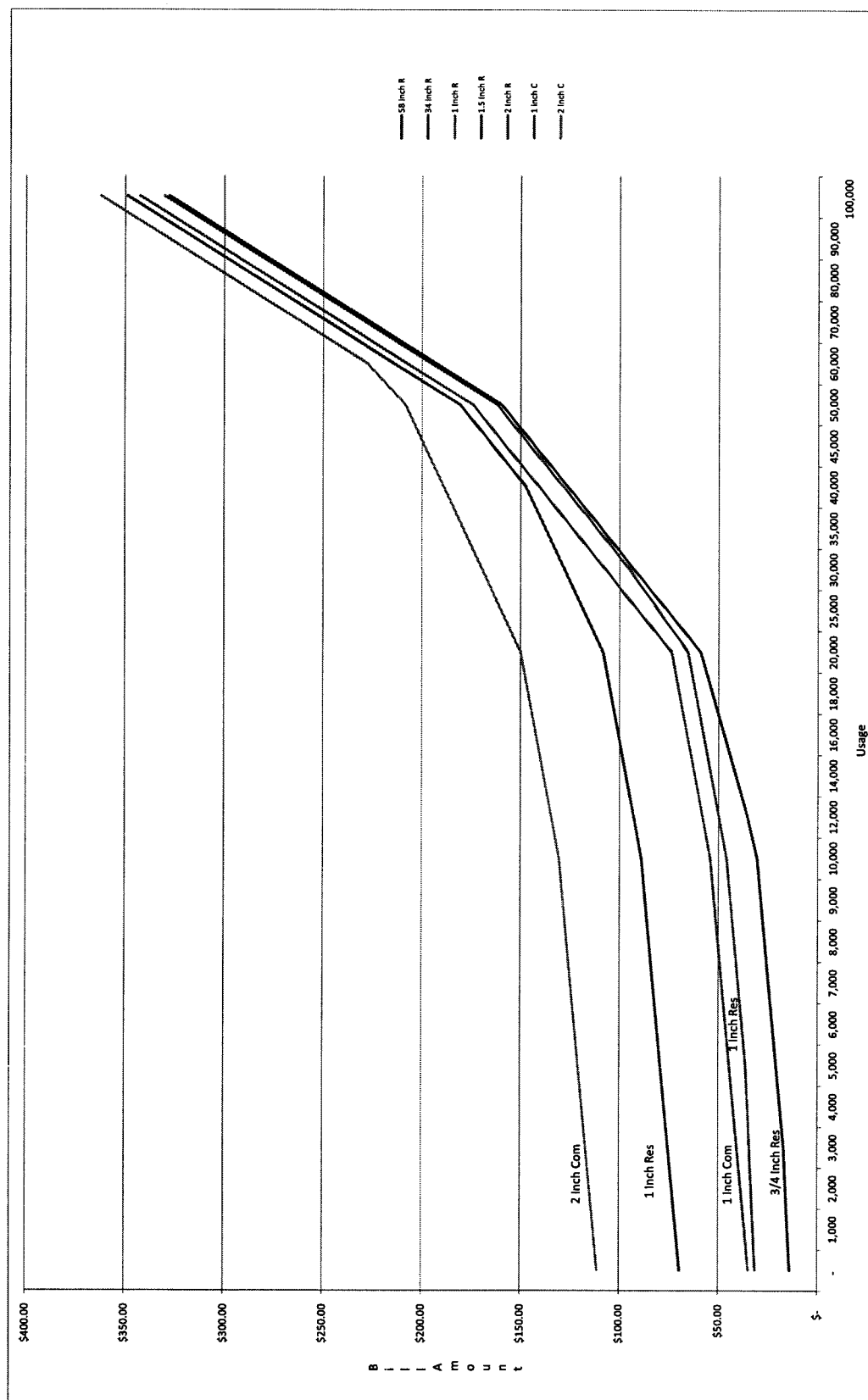
10 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**  
11 **STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS**  
12 **CHARGES?**

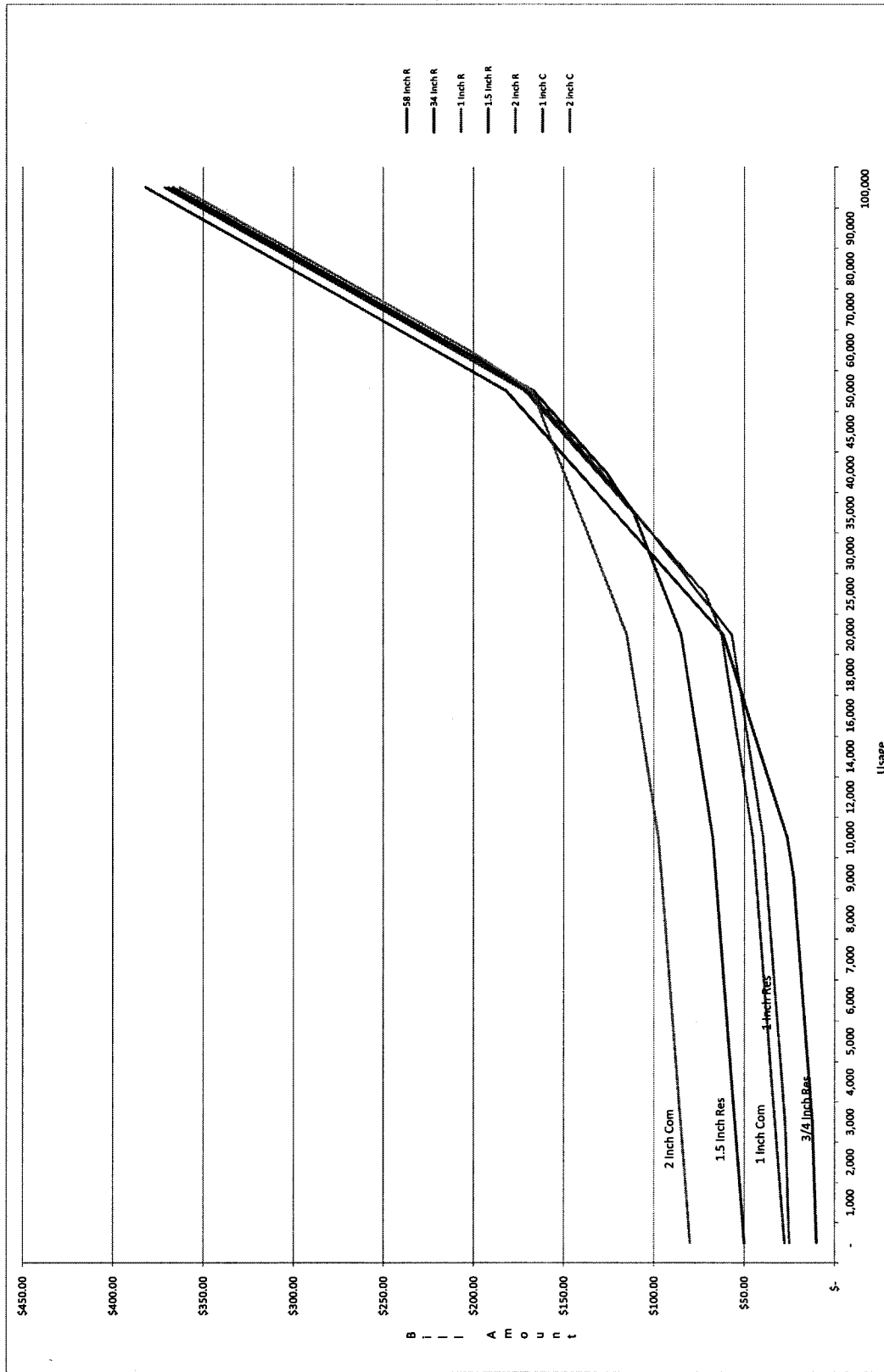
13 **A. No.**

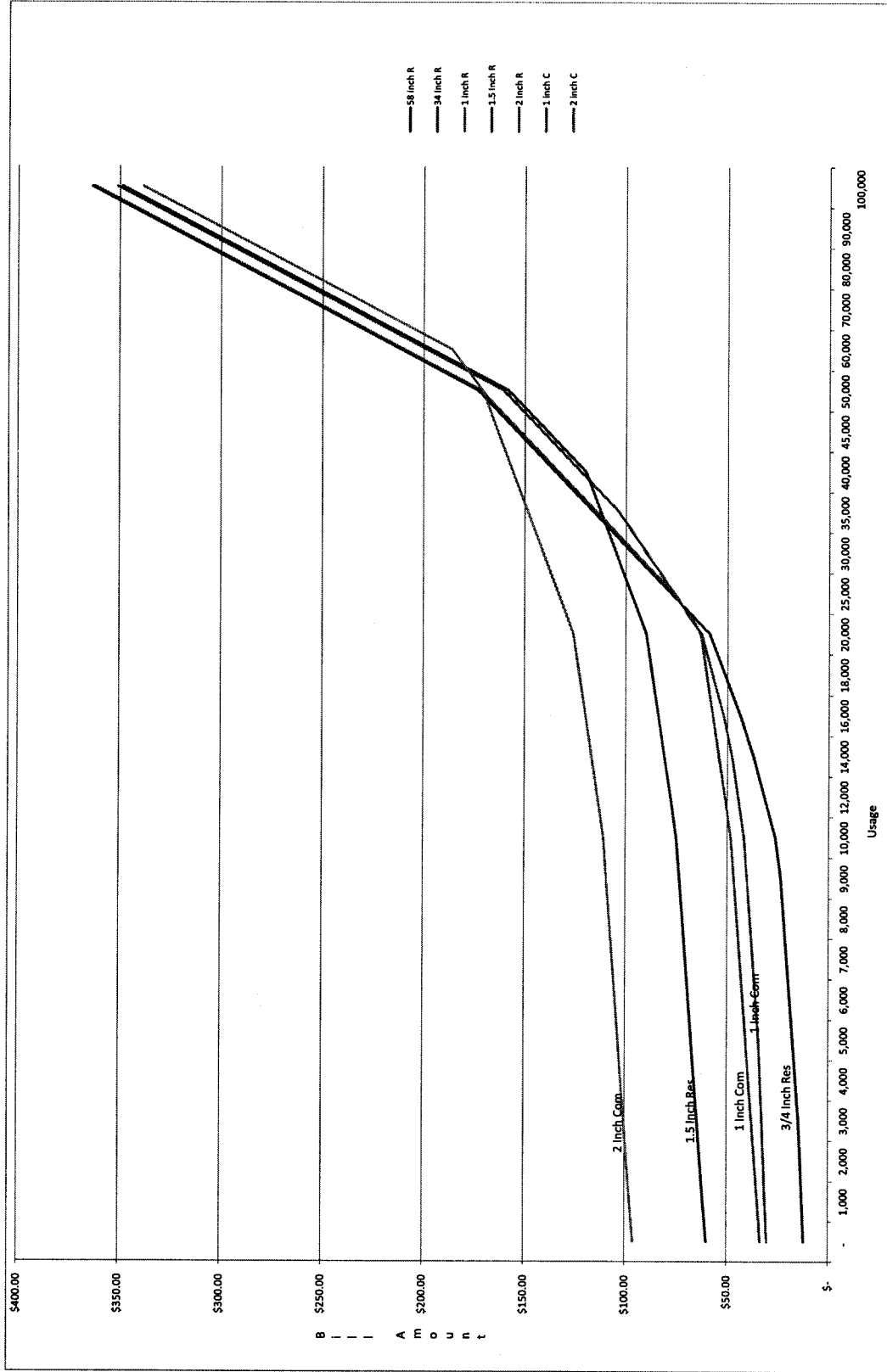
14 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 **A. Yes.**

# **EXHIBIT TJB-RB1**







# **EXHIBIT TJB-RB2**

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and Staff Proposed Rates**

Meter Size:

1 1/2 Inch

Page 1

<u>Usage</u>		<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>			
-	\$	51.00	\$ 50.00	\$ (1.00)			
1,000		52.91	51.75	(1.16)	<b>Present Rates:</b>		
2,000		54.82	53.50	(1.32)	Monthly Minimum:	\$	51.00
3,000		56.73	55.25	(1.48)	Gallons in Minimum		-
4,000		58.64	57.00	(1.64)	Charge Per 1,000 Gallons		
5,000		60.55	58.75	(1.80)	Up to	40,000	\$ 1.91
6,000		62.46	60.50	(1.96)	Over	40,000	\$ 3.03
7,000		64.37	62.25	(2.12)			
8,000		66.28	64.00	(2.28)			
9,000		68.19	65.75	(2.44)			
10,000		70.10	67.50	(2.60)			
12,000		73.92	71.00	(2.92)	<b>Proposed Rates:</b>		
14,000		77.74	74.50	(3.24)	Monthly Minimum:	\$	50.00
16,000		81.56	78.00	(3.56)	Gallons in Minimum		-
18,000		85.38	81.50	(3.88)	Charge Per 1,000 Gallons		
20,000		89.20	85.00	(4.20)	Up to	37,000	\$ 1.75
22,000		93.02	88.50	(4.52)	Over	37,000	\$ 4.00
24,000		96.84	92.00	(4.84)			
26,000		100.66	95.50	(5.16)			
28,000		104.48	99.00	(5.48)			
30,000		108.30	102.50	(5.80)			
32,000		112.12	106.00	(6.12)			
34,000		115.94	109.50	(6.44)			
36,000		119.76	113.00	(6.76)			
38,000		123.58	118.75	(4.83)			
40,000		127.40	126.75	(0.65)			
42,000		133.46	134.75	1.29			
44,000		139.52	142.75	3.23			
46,000		145.58	150.75	5.17			
48,000		151.64	158.75	7.11			
50,000		157.70	166.75	9.05			
52,000		163.76	174.75	10.99			
54,000		169.82	182.75	12.93			
56,000		175.88	190.75	14.87			
58,000		181.94	198.75	16.81			
60,000		188.00	206.75	18.75			
62,000		194.06	214.75	20.69			
64,000		200.12	222.75	22.63			
66,000		206.18	230.75	24.57			
68,000		212.24	238.75	26.51			
70,000		218.30	246.75	28.45			
72,000		224.36	254.75	30.39			
74,000		230.42	262.75	32.33			
76,000		236.48	270.75	34.27			
78,000		242.54	278.75	36.21			
80,000		248.60	286.75	38.15			
82,000		254.66	294.75	40.09			
84,000		260.72	302.75	42.03			
86,000		266.78	310.75	43.97			
88,000		272.84	318.75	45.91			
90,000		278.90	326.75	47.85			
92,000		284.96	334.75	49.79			
94,000		291.02	342.75	51.73			
96,000		297.08	350.75	53.67			
98,000		303.14	358.75	55.61			
100,000		309.20	366.75	57.55			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and Staff Proposed Rates**

Meter Size: 2 Inch

Page 2

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>			
-	\$ 81.60	\$ 80.00	\$ (1.60)			
1,000	83.51	81.75	(1.76)	<b>Present Rates:</b>		
2,000	85.42	83.50	(1.92)	Monthly Minimum:	\$	81.60
3,000	87.33	85.25	(2.08)	Gallons in Minimum		-
4,000	89.24	87.00	(2.24)	Charge Per 1,000 Gallons		
5,000	91.15	88.75	(2.40)	Up to	60,000	\$ 1.91
6,000	93.06	90.50	(2.56)	Over	60,000	\$ 3.03
7,000	94.97	92.25	(2.72)			
8,000	96.88	94.00	(2.88)			
9,000	98.79	95.75	(3.04)			
10,000	100.70	97.50	(3.20)			
12,000	104.52	101.00	(3.52)	<b>Proposed Rates:</b>		
14,000	108.34	104.50	(3.84)	Monthly Minimum:	\$	80.00
16,000	112.16	108.00	(4.16)	Gallons in Minimum		-
18,000	115.98	111.50	(4.48)	Charge Per 1,000 Gallons		
20,000	119.80	115.00	(4.80)	Up to	52,000	\$ 1.75
22,000	123.62	118.50	(5.12)	Over	52,000	\$ 4.00
24,000	127.44	122.00	(5.44)			
26,000	131.26	125.50	(5.76)			
28,000	135.08	129.00	(6.08)			
30,000	138.90	132.50	(6.40)			
32,000	142.72	136.00	(6.72)			
34,000	146.54	139.50	(7.04)			
36,000	150.36	143.00	(7.36)			
38,000	154.18	146.50	(7.68)			
40,000	158.00	150.00	(8.00)			
42,000	161.82	153.50	(8.32)			
44,000	165.64	157.00	(8.64)			
46,000	169.46	160.50	(8.96)			
48,000	173.28	164.00	(9.28)			
50,000	177.10	167.50	(9.60)			
52,000	180.92	171.00	(9.92)			
54,000	184.74	179.00	(5.74)			
56,000	188.56	187.00	(1.56)			
58,000	192.38	195.00	2.62			
60,000	196.20	203.00	6.80			
62,000	202.26	211.00	8.74			
64,000	208.32	219.00	10.68			
66,000	214.38	227.00	12.62			
68,000	220.44	235.00	14.56			
70,000	226.50	243.00	16.50			
72,000	232.56	251.00	18.44			
74,000	238.62	259.00	20.38			
76,000	244.68	267.00	22.32			
78,000	250.74	275.00	24.26			
80,000	256.80	283.00	26.20			
82,000	262.86	291.00	28.14			
84,000	268.92	299.00	30.08			
86,000	274.98	307.00	32.02			
88,000	281.04	315.00	33.96			
90,000	287.10	323.00	35.90			
92,000	293.16	331.00	37.84			
94,000	299.22	339.00	39.78			
96,000	305.28	347.00	41.72			
98,000	311.34	355.00	43.66			
100,000	317.40	363.00	45.60			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and Staff Proposed Rates**

Meter Size: 4 Inch

Page 3

Usage	Present Bill	Proposed Bill	Dollar Increase			
-	\$ 255.00	\$ 250.00	\$ (5.00)			
1,000	256.91	251.75	(5.16)	<b>Present Rates:</b>		
2,000	258.82	253.50	(5.32)	Monthly Minimum:	\$ 255.00	
3,000	260.73	255.25	(5.48)	Gallons in Minimum	-	
4,000	262.64	257.00	(5.64)	Charge Per 1,000 Gallons		
5,000	264.55	258.75	(5.80)	Up to	180,000	\$ 1.91
6,000	266.46	260.50	(5.96)	Over	180,000	\$ 3.03
7,000	268.37	262.25	(6.12)			
8,000	270.28	264.00	(6.28)			
9,000	272.19	265.75	(6.44)			
10,000	274.10	267.50	(6.60)			
12,000	277.92	271.00	(6.92)	<b>Proposed Rates:</b>		
14,000	281.74	274.50	(7.24)	Monthly Minimum:	\$ 250.00	
16,000	285.56	278.00	(7.56)	Gallons in Minimum	-	
18,000	289.38	281.50	(7.88)	Charge Per 1,000 Gallons		
20,000	293.20	285.00	(8.20)	Up to	140,000	\$ 1.75
22,000	297.02	288.50	(8.52)	Over	140,000	\$ 4.00
24,000	300.84	292.00	(8.84)			
26,000	304.66	295.50	(9.16)			
28,000	308.48	299.00	(9.48)			
30,000	312.30	302.50	(9.80)			
32,000	316.12	306.00	(10.12)			
34,000	319.94	309.50	(10.44)			
36,000	323.76	313.00	(10.76)			
38,000	327.58	316.50	(11.08)			
40,000	331.40	320.00	(11.40)			
42,000	335.22	323.50	(11.72)			
44,000	339.04	327.00	(12.04)			
46,000	342.86	330.50	(12.36)			
48,000	346.68	334.00	(12.68)			
50,000	350.50	337.50	(13.00)			
52,000	354.32	341.00	(13.32)			
54,000	358.14	344.50	(13.64)			
56,000	361.96	348.00	(13.96)			
58,000	365.78	351.50	(14.28)			
60,000	369.60	355.00	(14.60)			
62,000	373.42	358.50	(14.92)			
64,000	377.24	362.00	(15.24)			
66,000	381.06	365.50	(15.56)			
68,000	384.88	369.00	(15.88)			
70,000	388.70	372.50	(16.20)			
72,000	392.52	376.00	(16.52)			
74,000	396.34	379.50	(16.84)			
76,000	400.16	383.00	(17.16)			
78,000	403.98	386.50	(17.48)			
80,000	407.80	390.00	(17.80)			
82,000	411.62	393.50	(18.12)			
84,000	415.44	397.00	(18.44)			
86,000	419.26	400.50	(18.76)			
88,000	423.08	404.00	(19.08)			
90,000	426.90	407.50	(19.40)			
100,000	446.00	425.00	(21.00)			
150,000	541.50	535.00	(6.50)			
153,000	547.23	547.00	(0.23)			
200,000	659.40	735.00	75.60			
250,000	810.90	935.00	124.10			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and Staff Proposed Rates**

Meter Size:

8 Inch

Page 4

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>			
-	\$ 841.50	\$ 800.00	\$ (41.50)			
1,000	843.41	801.75	(41.66)	<b>Present Rates:</b>		
2,000	845.32	803.50	(41.82)	Monthly Minimum:	\$	841.50
3,000	847.23	805.25	(41.98)	Gallons in Minimum		-
4,000	849.14	807.00	(42.14)	Charge Per 1,000 Gallons		
5,000	851.05	808.75	(42.30)	Up to	940,000	\$ 1.91
6,000	852.96	810.50	(42.46)	Over	940,000	\$ 3.03
7,000	854.87	812.25	(42.62)			
8,000	856.78	814.00	(42.78)			
9,000	858.69	815.75	(42.94)			
10,000	860.60	817.50	(43.10)			
12,000	864.42	821.00	(43.42)	<b>Proposed Rates:</b>		
14,000	868.24	824.50	(43.74)	Monthly Minimum:	\$	800.00
16,000	872.06	828.00	(44.06)	Gallons in Minimum		-
18,000	875.88	831.50	(44.38)	Charge Per 1,000 Gallons		
20,000	879.70	835.00	(44.70)	Up to	600,000	\$ 1.75
22,000	883.52	838.50	(45.02)	Over	600,000	\$ 4.00
24,000	887.34	842.00	(45.34)			
26,000	891.16	845.50	(45.66)			
28,000	894.98	849.00	(45.98)			
30,000	898.80	852.50	(46.30)			
40,000	917.90	870.00	(47.90)			
50,000	937.00	887.50	(49.50)			
60,000	956.10	905.00	(51.10)			
70,000	975.20	922.50	(52.70)			
80,000	994.30	940.00	(54.30)			
90,000	1,013.40	957.50	(55.90)			
100,000	1,032.50	975.00	(57.50)			
120,000	1,070.70	1,010.00	(60.70)			
122,000	1,074.52	1,013.50	(61.02)			
124,000	1,078.34	1,017.00	(61.34)			
126,000	1,082.16	1,020.50	(61.66)			
128,000	1,085.98	1,024.00	(61.98)			
130,000	1,089.80	1,027.50	(62.30)			
170,000	1,166.20	1,097.50	(68.70)			
210,000	1,242.60	1,167.50	(75.10)			
250,000	1,319.00	1,237.50	(81.50)			
290,000	1,395.40	1,307.50	(87.90)			
330,000	1,471.80	1,377.50	(94.30)			
370,000	1,548.20	1,447.50	(100.70)			
410,000	1,624.60	1,517.50	(107.10)			
450,000	1,701.00	1,587.50	(113.50)			
490,000	1,777.40	1,657.50	(119.90)			
530,000	1,853.80	1,727.50	(126.30)			
570,000	1,930.20	1,797.50	(132.70)			
610,000	2,006.60	1,890.00	(116.60)			
650,000	2,083.00	2,050.00	(33.00)			
665,000	2,111.65	2,110.00	(1.65)			
666,000	2,113.56	2,114.00	0.44			
690,000	2,159.40	2,210.00	50.60			
730,000	2,235.80	2,370.00	134.20			
770,000	2,312.20	2,530.00	217.80			
810,000	2,388.60	2,690.00	301.40			
850,000	2,465.00	2,850.00	385.00			
890,000	2,541.40	3,010.00	468.60			
930,000	2,617.80	3,170.00	552.20			
970,000	2,727.80	3,330.00	602.20			
1,010,000	2,849.00	3,490.00	641.00			
1,050,000	2,970.20	3,650.00	679.80			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and RUCO Proposed Rates**

Meter Size: 1 1/2 Inch

Page 5

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>
-	\$ 51.00	\$ 60.00	\$ 9.00
1,000	52.91	61.50	8.59
2,000	54.82	63.00	8.18
3,000	56.73	64.50	7.77
4,000	58.64	66.00	7.36
5,000	60.55	67.50	6.95
6,000	62.46	69.00	6.54
7,000	64.37	70.50	6.13
8,000	66.28	72.00	5.72
9,000	68.19	73.50	5.31
10,000	70.10	75.00	4.90
12,000	73.92	78.00	4.08
14,000	77.74	81.00	3.26
16,000	81.56	84.00	2.44
18,000	85.38	87.00	1.62
20,000	89.20	90.00	0.80
22,000	93.02	93.00	(0.02)
24,000	96.84	96.00	(0.84)
26,000	100.66	99.00	(1.66)
28,000	104.48	102.00	(2.48)
30,000	108.30	105.00	(3.30)
32,000	112.12	108.00	(4.12)
34,000	115.94	111.00	(4.94)
36,000	119.76	114.00	(5.76)
38,000	123.58	117.00	(6.58)
40,000	127.40	120.00	(7.40)
42,000	133.46	127.62	(5.84)
44,000	139.52	135.24	(4.28)
46,000	145.58	142.86	(2.72)
48,000	151.64	150.48	(1.16)
50,000	157.70	158.10	0.40
52,000	163.76	165.72	1.96
54,000	169.82	173.34	3.52
56,000	175.88	180.96	5.08
58,000	181.94	188.58	6.64
60,000	188.00	196.20	8.20
62,000	194.06	203.82	9.76
64,000	200.12	211.44	11.32
66,000	206.18	219.06	12.88
68,000	212.24	226.68	14.44
70,000	218.30	234.30	16.00
72,000	224.36	241.92	17.56
74,000	230.42	249.54	19.12
76,000	236.48	257.16	20.68
78,000	242.54	264.78	22.24
80,000	248.60	272.40	23.80
82,000	254.66	280.02	25.36
84,000	260.72	287.64	26.92
86,000	266.78	295.26	28.48
88,000	272.84	302.88	30.04
90,000	278.90	310.50	31.60
92,000	284.96	318.12	33.16
94,000	291.02	325.74	34.72
96,000	297.08	333.36	36.28
98,000	303.14	340.98	37.84
100,000	309.20	348.60	39.40

**Present Rates:**

Monthly Minimum:	\$	51.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	40,000	\$ 1.91
Over	40,000	\$ 3.03

**Proposed Rates:**

Monthly Minimum:	\$	60.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	40,000	\$ 1.50
Over	40,000	\$ 3.81

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and RUCO Proposed Rates**

Meter Size: 2 Inch Commercial

Page 6

Usage	Present Bill	Proposed Bill	Dollar Increase			
-	\$ 81.60	\$ 96.00	\$ 14.40			
1,000	83.51	97.50	13.99	<b>Present Rates:</b>		
2,000	85.42	99.00	13.58	Monthly Minimum:	\$	81.60
3,000	87.33	100.50	13.17	Gallons in Minimum		-
4,000	89.24	102.00	12.76	Charge Per 1,000 Gallons		
5,000	91.15	103.50	12.35	Up to	60,000	\$ 1.91
6,000	93.06	105.00	11.94	Over	60,000	\$ 3.03
7,000	94.97	106.50	11.53			
8,000	96.88	108.00	11.12			
9,000	98.79	109.50	10.71			
10,000	100.70	111.00	10.30			
12,000	104.52	114.00	9.48	<b>Proposed Rates:</b>		
14,000	108.34	117.00	8.66	Monthly Minimum:	\$	96.00
16,000	112.16	120.00	7.84	Gallons in Minimum		-
18,000	115.98	123.00	7.02	Charge Per 1,000 Gallons		
20,000	119.80	126.00	6.20	Up to	60,000	\$ 1.50
22,000	123.62	129.00	5.38	Over	60,000	\$ 3.81
24,000	127.44	132.00	4.56			
26,000	131.26	135.00	3.74			
28,000	135.08	138.00	2.92			
30,000	138.90	141.00	2.10			
32,000	142.72	144.00	1.28			
34,000	146.54	147.00	0.46			
36,000	150.36	150.00	(0.36)			
38,000	154.18	153.00	(1.18)			
40,000	158.00	156.00	(2.00)			
42,000	161.82	159.00	(2.82)			
44,000	165.64	162.00	(3.64)			
46,000	169.46	165.00	(4.46)			
48,000	173.28	168.00	(5.28)			
50,000	177.10	171.00	(6.10)			
52,000	180.92	174.00	(6.92)			
54,000	184.74	177.00	(7.74)			
56,000	188.56	180.00	(8.56)			
58,000	192.38	183.00	(9.38)			
60,000	196.20	186.00	(10.20)			
62,000	202.26	193.62	(8.64)			
64,000	208.32	201.24	(7.08)			
66,000	214.38	208.86	(5.52)			
68,000	220.44	216.48	(3.96)			
70,000	226.50	224.10	(2.40)			
72,000	232.56	231.72	(0.84)			
74,000	238.62	239.34	0.72			
76,000	244.68	246.96	2.28			
78,000	250.74	254.58	3.84			
80,000	256.80	262.20	5.40			
82,000	262.86	269.82	6.96			
84,000	268.92	277.44	8.52			
86,000	274.98	285.06	10.08			
88,000	281.04	292.68	11.64			
90,000	287.10	300.30	13.20			
92,000	293.16	307.92	14.76			
94,000	299.22	315.54	16.32			
96,000	305.28	323.16	17.88			
98,000	311.34	330.78	19.44			
100,000	317.40	338.40	21.00			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and RUCO Proposed Rates**

Meter Size: 4 Inch

Page 7

Usage	Present Bill	Proposed Bill	Dollar Increase
-	\$ 255.00	\$ 300.00	\$ 45.00
1,000	256.91	301.50	44.59
2,000	258.82	303.00	44.18
3,000	260.73	304.50	43.77
4,000	262.64	306.00	43.36
5,000	264.55	307.50	42.95
6,000	266.46	309.00	42.54
7,000	268.37	310.50	42.13
8,000	270.28	312.00	41.72
9,000	272.19	313.50	41.31
10,000	274.10	315.00	40.90
12,000	277.92	318.00	40.08
14,000	281.74	321.00	39.26
16,000	285.56	324.00	38.44
18,000	289.38	327.00	37.62
20,000	293.20	330.00	36.80
22,000	297.02	333.00	35.98
24,000	300.84	336.00	35.16
26,000	304.66	339.00	34.34
28,000	308.48	342.00	33.52
30,000	312.30	345.00	32.70
40,000	331.40	360.00	28.60
50,000	350.50	375.00	24.50
60,000	369.60	390.00	20.40
70,000	388.70	405.00	16.30
80,000	407.80	420.00	12.20
90,000	426.90	435.00	8.10
100,000	446.00	450.00	4.00
120,000	484.20	480.00	(4.20)
122,000	488.02	483.00	(5.02)
124,000	491.84	486.00	(5.84)
126,000	495.66	489.00	(6.66)
128,000	499.48	492.00	(7.48)
130,000	503.30	495.00	(8.30)
132,000	507.12	498.00	(9.12)
134,000	510.94	501.00	(9.94)
136,000	514.76	504.00	(10.76)
138,000	518.58	507.00	(11.58)
140,000	522.40	510.00	(12.40)
142,000	526.22	513.00	(13.22)
144,000	530.04	516.00	(14.04)
146,000	533.86	519.00	(14.86)
148,000	537.68	522.00	(15.68)
150,000	541.50	525.00	(16.50)
152,000	545.32	528.00	(17.32)
154,000	549.14	531.00	(18.14)
156,000	552.96	534.00	(18.96)
158,000	556.78	537.00	(19.78)
160,000	560.60	540.00	(20.60)
162,000	564.42	547.62	(16.80)
164,000	568.24	555.24	(13.00)
166,000	572.06	562.86	(9.20)
168,000	575.88	570.48	(5.40)
170,000	579.70	578.10	(1.60)
172,000	583.52	585.72	2.20
174,000	587.34	593.34	6.00
176,000	591.16	600.96	9.80

**Present Rates:**

Monthly Minimum:	\$	255.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	180,000	\$ 1.91
Over	180,000	\$ 3.03

**Proposed Rates:**

Monthly Minimum:	\$	300.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	160,000	\$ 1.50
Over	160,000	\$ 3.81

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

**Bill Comparison Present and RUCO Proposed Rates**

Meter Size: 8 Inch

Page 8

Usage	Present Bill	Proposed Bill	Dollar Increase
-	\$ 841.50	\$ 960.00	\$ 118.50
1,000	843.41	961.50	118.09
2,000	845.32	963.00	117.68
3,000	847.23	964.50	117.27
4,000	849.14	966.00	116.86
5,000	851.05	967.50	116.45
6,000	852.96	969.00	116.04
7,000	854.87	970.50	115.63
8,000	856.78	972.00	115.22
9,000	858.69	973.50	114.81
10,000	860.60	975.00	114.40
12,000	864.42	978.00	113.58
14,000	868.24	981.00	112.76
16,000	872.06	984.00	111.94
18,000	875.88	987.00	111.12
20,000	879.70	990.00	110.30
22,000	883.52	993.00	109.48
24,000	887.34	996.00	108.66
26,000	891.16	999.00	107.84
28,000	894.98	1,002.00	107.02
30,000	898.80	1,005.00	106.20
40,000	917.90	1,020.00	102.10
50,000	937.00	1,035.00	98.00
60,000	956.10	1,050.00	93.90
70,000	975.20	1,065.00	89.80
80,000	994.30	1,080.00	85.70
90,000	1,013.40	1,095.00	81.60
100,000	1,032.50	1,110.00	77.50
120,000	1,070.70	1,140.00	69.30
122,000	1,074.52	1,143.00	68.48
124,000	1,078.34	1,146.00	67.66
126,000	1,082.16	1,149.00	66.84
128,000	1,085.98	1,152.00	66.02
130,000	1,089.80	1,155.00	65.20
170,000	1,166.20	1,215.00	48.80
210,000	1,242.60	1,275.00	32.40
250,000	1,319.00	1,335.00	16.00
290,000	1,395.40	1,395.00	(0.40)
330,000	1,471.80	1,455.00	(16.80)
370,000	1,548.20	1,515.00	(33.20)
410,000	1,624.60	1,575.00	(49.60)
450,000	1,701.00	1,635.00	(66.00)
490,000	1,777.40	1,695.00	(82.40)
530,000	1,853.80	1,755.00	(98.80)
570,000	1,930.20	1,815.00	(115.20)
610,000	2,006.60	1,875.00	(131.60)
650,000	2,083.00	1,935.00	(148.00)
690,000	2,159.40	1,995.00	(164.40)
730,000	2,235.80	2,055.00	(180.80)
770,000	2,312.20	2,115.00	(197.20)
810,000	2,388.60	2,198.10	(190.50)
850,000	2,465.00	2,350.50	(114.50)
890,000	2,541.40	2,502.90	(38.50)
930,000	2,617.80	2,655.30	37.50
970,000	2,727.80	2,807.70	79.90
1,010,000	2,849.00	2,960.10	111.10
1,050,000	2,970.20	3,112.50	142.30
1,090,000	3,091.40	3,264.90	173.50
1,130,000	3,212.60	3,417.30	204.70

**Present Rates:**

Monthly Minimum:	\$	841.50
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	940,000	\$ 1.91
Over	940,000	\$ 3.03

**Proposed Rates:**

Monthly Minimum:	\$	960.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	800,000	\$ 1.50
Over	800,000	\$ 3.81

# **EXHIBIT TJB-RB3**

**In Historic Vote, ACC Approves a DSIC Mechanism (Pg. 2)**

- After 14 years, Arizona stopped considering whether or not to adopt Distribution System Improvement Charges (DSICs); and approved on a 4-1 vote Arizona Water Company's request for a DSIC – called the "Systems Improvement Benefit Mechanism" or "SIB."

**Revenue Requirement, Not a Requirement Really (Pg. 7)**

- We look at 45 rate decisions (2007-2011) to see whether or not the "revenue requirement" set by the ACC was actually earned.

**A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources (Pg. 8)**

- If the IRS tax brackets hadn't been adjusted for inflation in 20 years, what tax bracket would you be in? It's time for the ACC to adjust Rule 14-2-103(A)(3)(q) for inflation.

**AIAC turns to CIAC, and Rate Base Evaporates (Pg. 11)**

- AIAC only gets refunded if customer growth occurs – what happens when it doesn't? And can't we reduce the utility company's risk?

Regulatory Reports Staff, Backgrounds, and emails, Pg. 20

**PAST ISSUES CAN BE FOUND ON OUR WEBSITE AT**

**[www.arizonaregulatoryreports.com](http://www.arizonaregulatoryreports.com)**

## **In historic vote, ACC approves a DSIC mechanism**

On June 12, 2013 ACC voted to approve Arizona's first Distribution System Improvement Charge; the "System Improvement Benefits Mechanism" (SIB), in a case involving Arizona Water Company (AWC).

### **The long road to the SIB.**

The SIB is a type of Distribution System Improvement Charge (DSIC), a ratemaking mechanism pioneered in Pennsylvania and endorsed by the National Association of Regulatory Utility Commissioners (NARUC)<sup>1</sup>. The concept of a DSIC has been talked about in Arizona for many years.

For example, the ACC established a task force to consider water issues in 1998.<sup>2</sup> The Task Force discussed DSICs, and the Task Force Report noted that:

- "Commission Staff is not opposed to implementing a policy similar to Pennsylvania's DISC"<sup>3</sup>
- "RUCO agrees that such a mechanism, if properly designed, has the potential to promote the upgrading of deteriorating water systems, without harmful or biased rate impacts on customers."<sup>4</sup>

However, these recommendations of the water task force were never implemented, and ultimately the task force docket was closed.<sup>5</sup>

After a long period of inaction, DSICs returned to the forefront in recent years, with a number of filings proposing or discussing DSICs. In 2010, the ACC ordered AWC to file a study on DSICs<sup>6</sup>, and it separately ordered workshops on various water issues including DSICs.<sup>7</sup> The ACC held a workshop on DSICs on January 14, 2011, with presentations addressing the use of DSICs in other states<sup>8</sup>, why DSICs are needed in Arizona<sup>9</sup>, the ability of DSICs to reduce water loss and improve human health<sup>10</sup>, and the legal basis of DSICs.<sup>11</sup>

### **AWC becomes the test case**

---

<sup>1</sup> "Resolution Endorsing and Co-Sponsoring "The Distribution System Improvement Charge", National Association of Regulatory Utility Commissioners adopted February 24, 1999.

<sup>2</sup> Decision No. 60829 (April 24, 1998), Docket No. W-00000C-98-0153.

<sup>3</sup> Interim Report of the Arizona Corporation Commission's Water Task Force, dated October 28, 1999, docketed on January 5, 2000 in Docket No. W-00000C-98-0153, at page 18.

<sup>4</sup> Id.

<sup>5</sup> ACC Administrative Closure Number 73028 (March 6, 2012) (noting issues being addressed in Docket W-00000C-06-0149).

<sup>6</sup> Decision No. 71845 (August 24, 2010).

<sup>7</sup> Decision No. 71878.

<sup>8</sup> Paul Townsley, Arizona-American Water Co., "DSIC: An Important Tool for Water Utilities and their Regulators", presented January 14, 2011; on file in Docket W-00000C-06-0149.

<sup>9</sup> Paul Walker, Insight Consulting, "Distribution System Improvement Charges", presented January 14, 2011; on file in Docket W-00000C-06-0149.

<sup>10</sup> Graham Symmonds, Global Water, "DSICs, Water Loss and Human Health", presented January 14, 2011 on file in Docket W-00000C-06-0149.

<sup>11</sup> Tim Sabo, Roshka, DeWulf, & Patten, "DSIC Legal Overview" presented January 14, 2011; on file in Docket W-00000C-06-0149.

AWC proposed a DSIC in its Eastern Group rate case.<sup>12</sup> Originally, Staff and RUCO opposed the DSIC, and after the hearing, the ALJ issued a Recommended Opinion and Order (ROO) recommending that the DSIC be denied. During the open meeting, Commissioner Bitter Smith proposed an amendment that the DSIC concept be considered during a "Phase II" of the AWC rate case. The amendment passed.

The Commission's Phase I decision explained:

AWC has provided plentiful evidence that its Eastern Group systems, most notably the Miami and Bisbee systems, have areas in which the pipes have corroded or otherwise degraded so as to become very fragile and to have leaks and breaks occurring at excessive rates. AWC has also established that the frequency of leaks and breaks in Eastern Group systems is generally increasing and that AWC needs to begin, and arguably already should have been, replacing infrastructure at a much faster rate than it has historically done.

Although we will not authorize a DSIC herein, today, we are supportive of the DSIC type mechanism and therefore we will leave this Docket open to allow the parties the opportunity to enter into discussions regarding AWC's DSIC proposal and other DSIC like proposals Staff may wish to introduce.<sup>13</sup>

The ACC put the Phase II proceedings on a very fast track, ordering that the Phase II ROO be ready in time for the June 11 and 12, 2013 open meeting.

Another topic that prompted extended discussion at the open meeting was whether AWC's approved "return on equity" or ROE should be reduced if a DSIC was approved. RUCO argued that if a DSIC is approved, the ROE should be reduced. However, the ACC did not approve any change to the ROE.

Essentially, the Phase II proceedings became a test case on DSICs, and a number of interested parties intervened in Phase II, including EPCOR, Liberty Utilities, Global Water, the Water Utility Association of Arizona, and the Arizona Investment Council.

After lengthy – and at times intense – settlement discussions, many of the parties agreed to a settlement agreement that included the SIB mechanism. The SIB mechanism includes the following features:

- Projects must be pre-approved to be included in the SIB.
- The SIB mechanism is limited to distribution system projects in the five NARUC accounts listed below:
  1. Transmission and Distribution Mains
  2. Fire Mains
  3. Services;
  4. Meters and Meter Installations
  5. Hydrants.
- A SIB surcharge can only be approved once a utility has a SIB mechanism approved in a rate case.

<sup>12</sup> Docket No. W-01445A-11-0310.

<sup>13</sup> Decision No. 73736 (Feb. 10, 2013) at page 104.

- The SIB surcharge application must include certain detailed schedules.
- Each annual SIB surcharge is limited to 5% of the revenue requirement in the rate case that approved the SIB.
- No more than five SIB surcharges are allowed between rate cases.
- A specific date for the Company's next rate case will be included for each SIB.
- The SIB revenue requirement is based on the approved weighted average cost of capital applied to the new SIB plant, plus the additional depreciation expense. However, there will be a 5% "efficiency credit" deducted from the SIB revenue requirement.

RUCO was the only party to oppose the settlement agreement. RUCO argued that although the settlement agreement contained many well-thought-out provisions, the very concept of the SIB was illegal; according to RUCO adjustor mechanisms that change rates between rate cases can only be approved for operating expenses. Thus, RUCO argued that because the SIB deals with plant costs and depreciation, it is not a proper or legal adjustor mechanism and must be rejected.

A number of other parties argued that the SIB mechanism was legal, pointing out that the Arsenic Cost Recovery Mechanism (ACRM) also dealt with plant costs.

#### **ROO rejects RUCO's legal challenge, but raises ROE issue**

In the Phase II ROO, ALJ Dwight Nodes rejected RUCO's legal arguments, finding that under Arizona law adjustor mechanisms can include plant costs, not just operating expenses.<sup>14</sup> However, he also recommended reducing AWC's ROE from 10.55% to 10.0%, contending that the 10.55% ROE adopted in Phase I was also higher "than would otherwise have been adopted" to address the same infrastructure issues as the SIB.<sup>15</sup>

Several utilities were concerned that they would be worse off if ROE reductions are approved as part of a SIB, and AWC noted that the ROE reduction would cost it \$1 million, more than it could hope to gain from the SIB surcharges. AWC, EPCOR, Liberty, Global, and WUAA all filed exceptions on this point, arguing that there should be no link between ROE and the SIB.

#### **SIB approved in dramatic open meeting.**

RUCO attorney Dan Pozefsky opened by saying that while RUCO does not agree with the Judge's legal analysis, "it's just greed" for AWC to object to the ROE reduction. With that kind of beginning, it's no surprise that discussion of the SIB mechanism was lengthy (about three hours) and at times dramatic.

Commissioner Pierce responded to the "greed" comment, by noting that while he sometime agrees with RUCO, it's not greed, simply a desire to earn the ROE. He noted that it would be nice to see a water utility earn its allowed ROE and that the allowed ROE is seldom earned. Mr. Pozefsky did not back down; he responded by calling the request to keep the previously-approved 10.55% ROE "extortion".

Staff took a middle line; Utilities Director Steve Olea argued said that Staff supports the existing 10.55% ROE, but can live with a reduced ROE as well. Overall, Mr. Olea emphasized that Staff supports the settlement.

---

<sup>14</sup> Phase II ROO filed May 30, 2013, at page 51 (noting that the SIB "is an adjustment mechanism established within a rate case as part of a company's rate structure"); and page 41 (noting that ACC has authority to approve an "automatic adjustor mechanism to address specific costs").

<sup>15</sup> ROO, page 55.

Commissioner Pierce offered an amendment (Pierce # 3) to keep the ROE at 10.55% while allowing the SIB. However, Commissioner Brenda Burns said that she would not support it, expressing concern over combining a 10.55 ROE and a SIB. Commissioner Bitter Smith agreed, noting that her primary goal was to “move forward” with a SIB, and that she generally views the ROE and SIB as “separate issues”, but supports the reduction in this case because the 10.55% was specifically tied to the infrastructure issue.

Commission Bob Burns also stated he would not support the amendment, leading Commissioner Pierce to withdraw the amendment because three Commissioners were opposed.

Faced with an apparent loss on the ROE issue, AWC attorney Steve Hirsch said that “the price of admission” for the SIB is too high, and requested that AWC be allowed to withdraw the SIB request, possibly for a SIB to be considered in AWC Northern Group case. At that point, it appeared that AWC would either have to give up 55 basis points of ROE or accept the SIB – and that meant the SIB, and the negotiated SIB settlement would die for lack of Commissioner support.

The Commission then took a break so the various parties could discuss what to do.

After the break, ACC Chief Counsel Janice Alward stated that the ACC could not discuss possibly deferring the SIB discussion to the Northern Group case, because that case was not included in the open meeting notice.

Paul Walker then gave an impassioned plea to approve the SIB without an ROE reduction. He argued that unless the Pierce amendment was approved, the ROE will always be at risk, and that it’s not greedy to need to raise capital. Commissioner Bitter Smith said that no other commissioner wants the SIB more than she, and her intent was not to place the ROE at risk in other cases. Her concern was to get the SIB approved “without 2 or 3 years of litigation”. She told Mr. Walker, “I share your passion; I don’t want to lose the progress we made.” Walker responded “how do you avoid litigating with RUCO... RUCO is still going to sue, fine. Let’s have the fight.” He pointed out that some parts of AWC’s Bisbee system have no pipe left, that you have to look at each system on its own, and that 10.55% is not too much for the systems in this case.

Commissioner Pierce expressed the concern that with the lower ROE, the SIB “will become a tool that’s rarely used.” In response to a question from Commissioner Bitter Smith, Tom Broderick from EPCOR explained how an ROE reduction would put them in a tough place, because they would file a rate case for a number of systems, only some of which would qualify for a SIB, but the ROE reduction would apply to all the systems.

RUCO Director Pat Quinn explained that in his view, the SIB efficiency credit was not big enough, and in the future, RUCO would evaluate each case “on its own” to decide whether to appeal a SIB.

Commissioner Bitter Smith commented that it might be a question of “who do we want to get sued by?”, and that she did not want to “walk out of here without a SIB”.

Commissioner Pierce then moved his amendment # 3, protecting AWC’s authorized ROE while allowing the SIB to move forward; Pierce #3 passed on a 3-2 vote with Chairman Stump, Commissioner Pierce and Commissioner Bitter Smith voting in favor.

The ACC also approved amendments clarifying how the earnings test would operate (Pierce # 1), and clarifying the ACC's legal authority to approve adjustor mechanisms (Pierce # 2).

The order, as amended, was approved 4-1, with Commissioner Brenda Burns voting no but expressing support for the SIB.

#### **Analysis and implications**

After 14 years of talking about DSICs, the ACC has finally approved one. And it's not likely to be an isolated incident. Rather, the Staff intends the SIB mechanism to be a template available for use in other cases. WIFA recently put out a press release noting that Arizona has \$7.4 billion in water infrastructure needs.<sup>16</sup> The SIB will be a new tool to help water companies meet this large infrastructure challenge by providing timelier rate adjustments for critically needed distribution system improvements.

But don't think that SIBs are going to be handed out like candy at Halloween. Director Olea has said several times that utilities will have to provide a detailed infrastructure study justifying a SIB before Staff will support a SIB. It is very unlikely that SIBs will be approved for newer systems. Even for older systems, Staff will expect a detailed explanation of the infrastructure problems and a list of specific projects that will be supported by the SIB.

In addition, the SIB settlement agreement provides for at least one of the following criteria to justify a SIB:

1. Water loss over 10%;
2. Plant assets that are fully depreciated and are in need of replacement;
3. Other "engineering, operational or financial justification", including
  - a. Documentation of increasing level of repairs or pipe failures.
  - b. Meter replacements for systems that have implemented a meter replacement program under Commission Rule 14-2-408(E).
  - c. Meter replacements to comply with the Reduction of lead in Drinking Water Act;
  - d. Assets that the government requires to be moved, replaced or abandoned, if the utility can show a good faith effort to seek reimbursement for the costs.

Lastly, the 14 year saga of DSICs in Arizona shows the importance of continuing education and advocacy on key issues. While hopefully other proposals will not require 14 years of study, reforms will happen only when stakeholders clearly point out the problem and explain the benefits of the reform and allow time for the Staff and Commissioners to adjust to the new idea and fully evaluate it. Moreover, in the case of the SIB, the process only took off when the industry was able to unite around a single proposal and work together with the Staff to come up with details.

---

<sup>16</sup> Water Infrastructure Finance Authority, "Arizona's Water Infrastructure Needs Total \$7.4 Billion", released June 7, 2013, citing EPA's "Drinking Water Needs Survey and Assessment."

## Revenue Requirement (Not a Requirement Really)

The appropriate rate design is often a matter of high dispute in water utility rate cases. Put simply, the companies often want to include more of the increase in the monthly minimum charge; while the Staff wants to put more of the increase on the commodity rates – and in many cases on the highest tiers of the commodity rates. Companies have long argued that assigning too little of the increase to the monthly minimum charge and/or the first commodity tier results in the revenue requirement being missed. Some research has revealed conclusive proof that this argument has merit.

**We looked at 45 water utility rate cases completed since December of 2007 and compared the authorized revenue requirement to the actual revenue these utilities received in subsequent years.<sup>17</sup>**

- Of the 21 rate cases we looked at from December 2007 through December 2009:
  - 81% did not achieve their authorized revenue requirement in 2010,
  - 86% did not achieve it in 2011, and
  - 76% did not achieve it in 2012.
- Of the 15 rate cases we looked at from 2010:
  - 87% did not achieve their authorized revenue requirement in 2011, and
  - 80% did not achieve it in 2012.
- Of the 9 cases we looked at from 2011:
  - 67% of the companies did not achieve their authorized revenue requirement in 2012.

Many of the companies that did achieve their revenue requirement benefitted from unusual circumstances such as growth in customer counts or special surcharges.

The evidence is clear: most water utilities do not collect their authorized revenue requirement in the years following a rate case. The rate design is at least partially responsible for this.

### How Much Income is Enough?

Another issue faced by small water utilities is uncertainty over how the ACC Staff will determine the appropriate income. We have written before about how the Staff sometimes applies an operating margin to low rate base utilities and sometimes uses a (“nominal”) cash flow analysis instead.<sup>18</sup> We’ve also written before about the inconsistent results that come from applying a consistent operating margin.<sup>19</sup> For small utilities that have positive but low rate bases, applying a consistent rate of return to that rate base can lead to widely varying income results depending on the size of the rate base. For zero and negative rate base utilities there is currently no policy, the applicant doesn’t know whether the Staff will impose an operating margin or some sort of cash flow analysis. And for low rate base utility there is no policy on when the rate base is too small to use a rate of return.

<sup>17</sup> We started with 60 rate cases decided over that period and threw out 15 either because it was unclear what the authorized revenue requirement was or because information on realized revenue was not available.

<sup>18</sup> See issue 12-1, January 2012.

<sup>19</sup> See Issue 11-3, June 15, 2011.

The California Public Utility Commission (CPUC) has adopted a policy wherein for small water utilities a (generous) operating margin and a rate of return on rate base are calculated and the CPUC uses whichever one is *higher* to set rates.

The CPUC also specifically designates a portion of the income generated by the utility to compensation for the owner and a portion to retained earnings for reinvestment. (This contrasts with Arizona where essentially all of the income generated by a utility can be assigned to pay debt service on a WIFA loan.) Such policies would be very helpful in Arizona. But in the meantime we urge the Commission to simply ask the Staff what level of income the water utility owner will receive under the proposed rates before voting to adopt them. We know of several situations in which the answer is that the owner would receive only a few thousand dollars per year.

---

### **A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources**

The current utility classification scheme (codified in R14-2-103(A)(3)(q)) was last updated over twenty years ago.<sup>20</sup> That scheme classifies utilities based on their annual Arizona jurisdictional revenue. For water and wastewater utilities the classes are as follows:

**TABLE ONE – Existing Classification Table for Water, Wastewater Utilities**

Class	Annual Revenue	
	From	To
A	\$5,000,000	and up
B	\$1,000,000	\$5,000,000
C	\$250,000	\$999,000
D	\$50,000	\$249,999
E	\$-	\$50,000
Per Rule 14-2-103(A)(3)(q)		

---

<sup>20</sup> The current version of R14-2-103 became effective August 31, 1992.

These classifications are relevant because they determine the amount of information necessary for a rate case filing and whether a hearing is necessary. It should be noted that the class distinction is based on the company's *requested* revenue not their current revenue.

We believe that 20 years is far too long to go without an update to these classifications. The consumer price index (the most widely used measure of inflation) has increased 65% since these classifications were established in 1992. The classifications should certainly be adjusted to account for the effects of inflation over time. And the ACC should modify the rule so that the classification table is adjusted for inflation every three years. Equally importantly, we have all been working with these classifications for some time now and it is well worth it to use that experience to come up with rational and useful changes to the classifications.

Because the numbers are over 20 years old, small companies that were never intended to undergo difficult, costly rate cases are now being treated as though the rule intended that they be – the result of that unadjusted rule is that inflation has pushed small companies into higher regulatory burdens. That increases rate case complexity – requiring more legal, financial, accounting, and engineering support; and more hearings than necessary. A certain side effect is that many small companies look at the complexity of the rate application and process that comes from a higher classification, and they simply opt to not file.

If we were simply to update the classifications for inflation it would shake out as follows:

**TABLE TWO – Classification Table for Water, Wastewater Utilities, Adjusted for CPI (1992-2012)**

Annual Revenue		
Class	From	To
A	\$8,265,770	and up
B	\$1,653,154	\$8,265,770
C	\$413,288	\$1,651,501
D	\$82,658	\$413,287
E	\$-	\$82,658
R14-2-103(A)(3)(q), updated for inflation		

But we need not limit ourselves to a simple inflation update. Rounding the above numbers up provides the following classifications:

**TABLE THREE – Classification Table for Water, Wastewater Utilities, Adjusted for CPI, and Rounded**

Annual Revenue		
Class	From	To
A	\$10,000,000	and up
B	\$2,000,000	\$10,000,000
C	\$500,000	\$2,000,000
D	\$100,000	\$500,000
E	\$-	\$100,000

Based on our experience the above classifications would provide real relief to smaller water utilities that are in need of rate cases.

**The biggest issue here is the break between the D and C classes.**

D and E class utilities can file the “short form” application process while A, B and C-class utilities must file the long form application. The above classification scheme would make many more utilities eligible to use the short form process. Under the short form process no hearing is necessary and the filing requirements are less stringent. We have dealt with many utilities over the past several years that need a rate increase that would, if approved, put their annual revenue over \$250,000. These are, by definition, small utilities with limited resources and a large part of their necessary increase stems only from inflation. Allowing many of these utilities to utilize the short form process could benefit them and their customers – and it would save the ACC time and resources, allowing Staff to focus on the larger cases and issues. Given the large number of utilities that fall into this category, and that have infrastructure issues that need to be addressed, it is in the Commission’s own best interest to streamline their application process.

While changing the class revenue breaks would be beneficial, we must point out that it would not be a panacea. Reduced filing requirements will provide little benefit if other parties lengthen and complicate the process with excessive data requests. Doing without a hearing will not be helpful if Staff takes an overly adversarial approach during their processing of the short form application. In the end, this (or any) policy change will have limited positive impact unless it is combined with a more constructive approach, i.e., adopting the view that the utility is not the enemy of its customers and striving to find a fair balance between investor needs and customer concerns.

---

Editor's Note: 99.99% of normal people go comatose reading articles about the different depreciation and amortization approaches of AIAC and CIAC.

That said, we have made the article below, "AIAC turns to CIAC, and Rate Base Evaporates" as understandable and straightforward as possible – if Arizona adopts this proposal, we could increase the investment value of small companies without increasing the rates customers have to pay. That would lead to increased equity investment, easier financing for small companies, and an increase in the ability to acquire and consolidate smaller companies into larger holding companies.

---

### **AIAC turns to CIAC, and Rate Base Evaporates**

Refundable Advances in Aid of Construction (AIAC) are a widespread method of funding plant. Under an AIAC agreement a party agrees to fund plant construction needed to serve it under the condition that the amount provided (or the cost of the plant provided) will be refunded according to a growth based formula over (usually) 10 or 20 years.

In many cases the full amount is not refunded in the requisite number of years, usually because growth occurred more slowly than anticipated. In some cases the amount of AIAC still on the books when the AIAC contract expires is significant.

When this happens the AIAC on the books converts to Contributions in Aid of Construction (CIAC.) One would think this is no big deal, both AIAC and CIAC have the same impact on a company's rate base so what difference would this make in ratemaking? Well, this is ratemaking, so it is never simple. In fact, when large amounts of AIAC convert to CIAC it can have devastating impacts on a company's rate base.

However, a straightforward policy change could greatly mitigate this effect without impacting customers.

The policy question is: How to amortize CIAC that results from AIAC refund obligations expiring?

We'll use a simple example to explain it. First, consider how "pure" CIAC is treated. Suppose \$100 of plant is contributed to a company, the plant balance and the CIAC balance are both increased by \$100. Over time, the plant depreciates and the CIAC is amortized at the same rate so that, over the years, the rate base is never affected: The CIAC and plant perfectly offset each other:

**TABLE ONE –Treatment of CIAC Funding and Plant in Rate Base**

Treatment of \$100 plant funded by CIAC			
	a	b	(a-b)
<i>Year</i>	<i>Plant</i>	<i>CIAC</i>	<i>Impact on Rate Base</i>
0	100	100	0
1	95	95	0
2	90	90	0
3	85	85	0
4	80	80	0
5	75	75	0
6	70	70	0
7	65	65	0
8	60	60	0
9	55	55	0
10	50	50	0
11	45	45	0
12	40	40	0
13	35	35	0
14	30	30	0
15	25	25	0
16	20	20	0
17	15	15	0
18	10	10	0
19	5	5	0
20	0	0	0
CIAC Amortization Rate			5%
Plant Depreciation Rate			5%

But if the plant is funded with AIAC, and growth doesn't follow, revenues don't increase and the AIAC isn't refunded, then things are different. The AIAC balance does not amortize but the plant it funds does depreciate. This creates a mismatch between the treatment of the plant and the capital that was used to fund the plant. After ten years the un-refunded AIAC converts to CIAC and begins being amortized. Table 2 shows what happens (assuming all of the AIAC converts to CIAC to keep the example simple.)

In Tables 2 and 3 in this article, we are showing the effect when no AIAC is refunded – which occurs when growth does not materialize. The general problem holds true when AIAC is only partially funded – which occurs when growth occurs more slowly than predicted.

**TABLE TWO – Effect of AIAC Conversion to CIAC on Rate Base (Traditional w/o AIAC Refund)**

Treatment of \$100 plant edition funded with AIAC				
	a	b	c	(a-b-c)
<i>Year</i>	<i>Plant</i>	<i>CIAC</i>	<i>AIAC</i>	<i>Impact on Rate Base</i>
0	100	0	100	0
1	95	0	100	-5
2	90	0	100	-10
3	85	0	100	-15
4	80	0	100	-20
5	75	0	100	-25
6	70	0	100	-30
7	65	0	100	-35
8	60	0	100	-40
9	55	0	100	-45
10	50	0	100	-50
11	45	100	0	-55
12	40	95	0	-55
13	35	90	0	-55
14	30	85	0	-55
15	25	80	0	-55
16	20	75	0	-55
17	15	70	0	-55
18	10	65	0	-55
19	5	60	0	-55
20	0	55	0	-55
21	0	50	0	-50
22	0	45	0	-45
23	0	40	0	-40
24	0	35	0	-35
25	0	30	0	-30
26	0	25	0	-25
27	0	20	0	-20
28	0	15	0	-15
29	0	10	0	-10
30	0	5	0	-5
31	0	0	0	0
CIAC Amortization Rate			5%	
Plant Depreciation Rate			5%	

So in the out years the mismatch between plant depreciation and CIAC amortization has a negative effect on rate base. In the above example, 20 plus years after the plant is built and after it is fully depreciated it is still pulling the rate base down.

This mismatch can be resolved by increasing the CIAC amortization balance so that it reflects amortization that matches the depreciation of the plant:

**TABLE THREE –Treatment of CIAC Funding and Plant in Rate Base (With Amortization)**

Treatment of \$100 plant edition funded with AIAC, Alternative Proposal				
	a	B	c	(a-b-c)
<i>Year</i>	<i>Plant</i>	<i>CIAC</i>	<i>AIAC</i>	<i>Impact on Rate Base</i>
0	100	0	100	0
1	95	0	100	-5
2	90	0	100	-10
3	85	0	100	-15
4	80	0	100	-20
5	75	0	100	-25
6	70	0	100	-30
7	65	0	100	-35
8	60	0	100	-40
9	55	0	100	-45
10	50	0	100	-50
11	45	45	0	0
12	40	40	0	0
13	35	35	0	0
14	30	30	0	0
15	25	25	0	0
16	20	20	0	0
17	15	15	0	0
18	10	10	0	0
19	5	5	0	0
20	0	0	0	0
CIAC Amortization Rate				5%
Plant Depreciation Rate				5%

Many smaller Arizona utilities have a considerable amount of AIAC that is not likely to be refunded on their books. In many cases the original AIAC contracts were entered into by previous owners who had interests other than the long term health of the utility.

Smaller utilities with a lot of depreciated plant and a small positive rate base can see their rate base plunge deep into negative territory upon the expiration of a few large AIAC contracts. This destroys the utility's balance sheet and turns it into an investment black hole. This makes bank financing very difficult; it makes attracting equity investment impossible.

But in terms of rates there isn't much difference. Since low and negative rate base utility rates are set on an operating margin or cash flow basis the rate base doesn't really affect rates. So with the policy change described above the Commission could take a significant step towards protecting the financial viability of private water utilities *without impacting rates*.

---

Did we miss an important issue or case? Let us know. Working on a case we should follow? Let us know and we will track it. Have a question or a regulatory issue? Let us know - that's what we do.

Arizona Regulatory Reports is published by Arizona Regulatory Reports, LLC.

For subscription information, please email [info@arizonainsight.com](mailto:info@arizonainsight.com)

#### Arizona Regulatory Reports Staff

**Matt Rowell** served on the ACC Staff from 1996 to 2007. For the last five of those years Matt served as the ACC Utilities Division's Chief Economist where he supervised several Staff members and was deeply involved in a wide variety of rate cases and other matters before the ACC. Since 2007 Matt has worked for Desert Mountain Analytical Services, providing expert analysis and testimony in multiple cases. He has advised clients on regulatory strategies for acquisitions, general rate cases, and litigated disputes. Matt recently passed the Certified Rate of Return Analyst (CRRRA) exam administered by the Society of Utility and Regulatory Rate of Return Analysts.

To contact Matt Rowell, please email [mattrowell@cox.net](mailto:mattrowell@cox.net)

**Tim Sabo** has a decade of experience practicing before the ACC, including serving as an ACC staff attorney from 2001 to 2005. Tim has over 70 ACC hearings under his belt, including many rate cases. Tim represents utilities before the ACC in rate cases, CC&N extensions, and formal complaint proceedings. He also represents utilities in civil litigation and arbitration cases.

To contact Tim Sabo, please email [tsabo@rdp-law.com](mailto:tsabo@rdp-law.com)

**Paul Walker** served as advisor to Chairman Marc Spitzer at the ACC; worked on Governor Jane Dee Hull's negotiating and lobbying team during the Indian Gaming Compacts; and was on the staff of U.S. Congressman John J. Rhodes, III. Paul specializes in regulatory analysis, lobbying, and consulting. In addition, Paul was elected to the national board of directors of ConservAmerica – a 6,000 member Republican organization working to improve the environment through market-based policies at the national level; he chairs Arizonans for Responsible Water Policy – a trade group comprised of large water companies advocating for long-term water policy changes; and serves on the Arizona Power Plant and Line Siting Committee, a statutory board comprised of elected and appointed officials that determines the environmental and economic compatibility of power plant and electric transmission line applications.

To contact Paul Walker, please email [paul@arizonainsight.com](mailto:paul@arizonainsight.com)

Copyright 2013 Arizona Regulatory Reports, LLC

Copyrighted Material – Reproduction Prohibited

[www.arizonaregulatoryreports.com](http://www.arizonaregulatoryreports.com)

**LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY  
UTILITIES**

**THOMAS BOURASSA  
REBUTTAL TESTIMONY**

**OCTOBER 23, 2013**

**WATER DIVISION  
REBUTTAL SCHEDULES**

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Computation of Increase in Gross Revenue**  
**Requirements As Adjusted**

Exhibit  
Rebuttal Schedule A-1  
Page 1  
Witness: Bourassa

Line  
No.

1	Fair Value Rate Base	\$ 33,227,792
2		
3	Adjusted Operating Income	2,035,629
4		
5	Current Rate of Return	6.13%
6		
7	Required Operating Income	\$ 3,049,083
8		
9	Required Rate of Return on Fair Value Rate Base	9.18%
10		
11	Operating Income Deficiency	\$ 1,013,454
12		
13	Gross Revenue Conversion Factor	1.6466
14		
15	Increase in Gross Revenue Requirement	\$ 1,668,790
16		
17	Adjusted Test Year Revenues	\$ 11,201,268
18	Increase in Gross Revenue Requirement	\$ 1,668,790
19	Proposed Revenue Requirement	\$ 12,870,058
20	% Increase	14.90%

Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
25 5/8x3/4 Inch Residential	\$ 11,824	\$ 14,345	\$ 2,521	21.32%
26 3/4 Inch Residential	3,047,017	3,415,174	368,157	12.08%
27 3/4 Inch Residential - Low Income	7,293	7,757	464	6.36%
28 1 Inch Residential	3,360,696	3,981,180	620,484	18.46%
29 1 Inch Residential - Low Income	8,528	11,098	2,570	30.14%
30 1.5 Inch Residential	44,871	52,309	7,438	16.58%
31 2 Inch Residential	4,981	5,886	905	18.17%
32 4 Inch Residential	-	-	-	0.00%
33 5/8x3/4 Inch Commercial	245	333	88	36.08%
34 3/4 Inch Commercial	8,987	10,685	1,699	18.90%
35 1 Inch Commercial	28,013	33,745	5,732	20.46%
36 1.5 Inch Commercial	118,831	137,671	18,840	15.85%
37 2 Inch Commercial	684,406	807,345	122,939	17.96%
38 4 Inch Commercial	242,692	272,348	29,656	12.22%
39 8 Inch Commercial	10,786	14,027	3,241	30.05%
40 10 Inch Commercial	36,262	42,203	5,941	16.38%
41 5/8x3/4 Inch Irrigation	906	1,071	165	18.23%
42 3/4 Inch Irrigation	58,536	67,354	8,819	15.07%
43 1 Inch Irrigation	292,670	337,167	44,496	15.20%
44 1.5 Inch Irrigation	342,197	388,790	46,594	13.62%
45 2 Inch Irrigation	1,777,002	2,008,098	231,096	13.00%
46 4 Inch Irrigation	140,026	159,349	19,323	13.80%
47 1 Inch MF	1,558	2,264	706	45.30%
48 1.5 Inch MF	47,101	54,084	6,984	14.83%
49 2 Inch MF	320,997	376,103	55,106	17.17%
50 4 Inch MF	47,487	54,277	6,790	14.30%
51 5/8x3/4 Inch Fire	28,594	38,847	10,253	35.86%
52 3/4 Inch Fire	2,879	3,910	1,031	35.81%
53 1 Inch Fire	275	374	99	35.95%
54 Hydrant	68,030	75,439	7,409	10.89%
55 Sweeper	700	776	76	10.89%
56 8 Inch Goodyear	128,952	142,421	13,469	10.44%
57 4 Inch VUI	3,060	4,164	1,104	36.08%
58 Declining Usage Adjustment	(58,703)	(58,703)	-	0.00%
59 Revenue Annualization	147,042	173,966	26,923	18.31%
60 Subtotal	\$ 10,964,740	\$ 12,635,858	\$ 1,671,118	15.24%
61				
62 Other Water Revenues	235,723	235,723	(0)	0.00%
63 Reconciling Amount	805	(1,523)	(2,328)	-289.19%
64 Rounding			-	0.00%
65 Total of Water Revenues	\$ 11,201,268	\$ 12,870,058	\$ 1,668,790	14.90%

SUPPORTING SCHEDULES:

69 B-1  
70 C-1  
71 C-3  
72 H-1

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Summary of Rate Base

Exhibit  
Rebuttal Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 90,867,014	\$ 90,867,014
3	Less: Accumulated Depreciation	18,927,597	18,927,597
4			
5	Net Utility Plant in Service	\$ 71,939,416	\$ 71,939,416
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	30,374,274	30,374,274
9			
10	Contributions in Aid of Construction	7,425,812	7,425,812
11			
12	Accumulated Amortization of CIAC	(1,285,854)	(1,285,854)
13			
14	Customer Meter Deposits	1,271,802	1,271,802
15	Custmer Security Deposits	147,661	147,661
16	Accumulated Deferred Income Tax	868,997	868,997
17			
18			
19	<u>Plus:</u>		
20			
21	Deferred Regulatory Assets TCE Plume	91,067	91,067
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ 33,227,792	\$ 33,227,792
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Original Cost Rate Base Proforma Adjustments**

Exhibit  
Rebuttal Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Rebuttal Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 91,151,411	(284,397)	\$ 90,867,014
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	16,514,086	2,413,511	18,927,597
7				
8				
9	Net Utility Plant			
10	in Service	\$ 74,637,324		\$ 71,939,416
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	30,374,274	-	30,374,274
15				
16	Contributions in Aid of			
17	Construction - Gross	7,324,578	101,234	7,425,812
18				
19	Accumulated Amortization of CIAC	(1,489,772)	203,918	(1,285,854)
20				
21	Customer Meter Deposits	1,271,802	-	1,271,802
22	Customer Security Deposits	140,147	7,514	147,661
23	Accumulated Deferred Income Tax	1,459,075	(590,078)	868,997
24				-
25				-
26				
27	<b>Plus:</b>			
28				
29	Deferred Regulatory Assets TCE Plume	90,381	686	91,067
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	<b>Total</b>	<b>\$ 35,647,602</b>		<b>\$ 33,227,792</b>

46 SUPPORTING SCHEDULES:  
47 B-2, pages 2  
48 E-1  
49  
50  
51

RECAP SCHEDULES:  
B-1

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Rebuttal Schedule B-2  
Page 2  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments					Regulatory Assets	Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
			1	2	3	4	5			
			Plant-in-Service	Accumulated Depreciation	CIAC	ADIT	Customer Deposits			
1	Gross Utility	\$ 91,151,411	(284,397)							90,867,014
2	Plant in Service			2,413,511						18,927,597
3	Less:									
4	Accumulated Depreciation	16,514,086								
5										
6										
7										
8										
9	Net Utility Plant in Service	\$ 74,637,324	\$ (284,397)	\$ (2,413,511)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,939,416
10										
11	Less:									
12	Advances in Aid of Construction	30,374,274								30,374,274
13										
14										
15										
16	Contributions in Aid of Construction (CIAC)	7,324,578			101,234					7,425,812
17										
18	Accumulated Amort of CIAC	(1,489,772)			203,918					(1,285,854)
19										
20	Customer Meter Deposits	1,271,802								1,271,802
21	Customer Security Deposits	140,147								147,661
22										
23	Accumulated Deferred Income Taxes	1,459,075				(590,078)	7,514			868,997
24										
25										
26	Plus:									
27										
28	Deferred Regulatory Assets TCE Plume	90,381						686		91,067
29	Prepayments	-								
30	Materials and Supplies	-								
31	Allowance for Cash Working Capital	-								
32										
33	Total	\$ 35,647,602	\$ (284,397)	\$ (2,413,511)	\$ (305,152)	\$ 590,078	\$ (7,514)	\$ 686	\$ -	\$ 33,227,792
34										
35										
36										

SUPPORTING SCHEDULES:  
B-2, pages 3-8  
E-1

RECAP SCHEDULES:  
B-1

Litchfield Park Service Company - Water Division dba Liberty Utilities

Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

Exhibit  
Rebuttal Schedule B-2  
Page 3  
Witness: Bourassa

Plant-in-Service													
Line No.	Acct. No.	Description	Adjusted Original Cost	A True-up of Accruals	B Plant Reclassification	C Plant Not Used and Useful	Adjustments			E Retirement Transportation Equipment	F Retirements and Reclassification	G Adjustments to Reconcile Plant to Reconstruction	Rebuttal Adjusted Original Cost
							D Duplicate Invoices						
1	301	Organization Cost	21,100										21,100
2	302	Franchise Cost	-										-
3	303	Land and Land Rights	1,456,278										1,450,278
4	304	Structures and Improvements	28,000,816	(178,617)	(2,776,772)	(6,000)	(3,000)						25,036,371
5	305	Collecting and Impounding Res.	-										-
6	306	Lake River and Other Intakes	-										-
7	307	Wells and Springs	3,097,345	(18,108)	134,878						(0)		3,214,114
8	308	Infiltration Galleries and Tunnels	-										-
9	309	Supply Mains	-										-
10	310	Power Generation Equipment	207,020		18,111								-
11	311	Electric Pumping Equipment	897,792		(23,502)								225,130
12	312	Water Treatment Equipment	-										874,290
13	320.1	Water Treatment Plant	1,696,759		1,728,635								-
14	320.2	Chemical Solution Feeders	-										-
15	330.1	Dist. Reservoirs & Standpipe	492,176										3,425,394
16	330.2	Storage tanks	-		901,841								-
17	331	Pressure Tanks	-										-
18	332	Trans. and Dist. Mains	40,259,045							(2,859)	0		492,176
19	333	Services	5,350,963										901,841
20	334	Meters	4,759,560										-
21	335	Hydrants	3,304,755										40,256,187
22	336	Backflow Prevention Devices	38,387										5,350,963
23	339	Other Plant and Misc. Equip.	259,531										4,759,560
24	340	Office Furniture and Fixtures	651,098								0		3,302,148
25	340.1	Computers and Software	-		6,555								38,387
26	341	Transportation Equipment	307,592		7,995								259,531
27	342	Stores Equipment	37,143					(17,555)	(55,341)		1		657,653
28	343	Tools and Work Equipment	47,434										7,995
29	344	Laboratory Equipment	5,803										234,697
30	345	Power Operated Equipment	-										37,143
31	346	Communications Equipment	128,402						18,003		(0)		47,434
32	347	Miscellaneous Equipment	-										5,803
33	348	Other Tangible Plant	132,312		(9,897)								18,003
34	40	Rounding	-										128,402
35	41	TOTALS	\$ 91,151,411	\$ (196,725)	\$ (12,156)	\$ (12,156)	\$ (5,608)	\$ (17,555)	\$ (40,196)	\$ (1)			122,414
36	42	Adjusted Plant-in-Service									0		\$ 90,867,014
37	43	Increase (decrease) in Plant-in-Service											(1)
38	44	Adjustment to Plant-in-Service											\$ 91,151,411
39	45												\$ (284,397)
40	46												\$ (284,397)
41	47	SUPPORTING SCHEDULE											\$ (284,397)

Adjusted Plant-in-Service

Increase (decrease) in Plant-in-Service

Adjustment to Plant-in-Service

SUPPORTING SCHEDULES

B-2, pages 3.1 to 3.7

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - A

Exhibit  
Rebuttal Schedule B-2  
Page 3.1  
Witness: Bourassa

Line

No.

True-Up of Accruals

2

3

4

Acct.

5

No. Description

6

304 Structures and Improvements

7

307 Wells and Springs

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42

43

44

45

TOTALS

\$ (196,725)

SUPPORTING SCHEDULE

Staff Adjustment #3

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rebuttal Schedule B-2  
Page 3.2  
Witness: Bourassa

Line

No.

1 Reclassification of Plant

2

3

4

Acct.

5

No. Description

Adjustment

6

304 Structures and Improvements

(2,776,772)

7

307 Wells and Springs

134,878

8

310 Power Generation Equipment

18,111

9

311 Electric Pumping Equipment

(23,502)

10

320.1 Water Treatment Plant

1,728,635

11

330.1 Storage tanks

901,841

12

340 Office Furniture and Fixtures

6,555

13

340.1 Computers and Software

7,995

14

348 Other Tangible Plant

(9,897)

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

TOTALS

\$ (12,156)

41

42 SUPPORTING SCHEDULE

43

Staff Adjustment #5

44

Staff Table 8 - Reclassification

45

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - C

Exhibit  
Rebuttal Schedule B-2  
Page 3.3  
Witness: Bourassa

Line

No.

Plant Not Used and Useful

1

2

3

4

Acct.

5

No. Description

Adjustment

6

303 Land and Land Rights

(6,000)

7

304 Structures and Improvements

(6,156)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

TOTALS

\$ (12,156)

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #6

44

Staff Table 6 - Not Used and Useful Plant Items

45

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - D

Exhibit  
Rebuttal Schedule B-2  
Page 3.4  
Witness: Bourassa

Line

No.

1 Plant Not Used and Useful

2

3

4

Acct.

5

No. Description

Adjustment

6

304 Structures and Improvements

(3,000)

7

335 Hydrants

(2,608)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

TOTALS

\$ (5,608)

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #7

44

45

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - E

Exhibit  
Rebuttal Schedule B-2  
Page 3.5  
Witness: Bourassa

Line

No.

1 Retirement of Transportation Equipment

2

3

4 Acct.

5 No. Description

6 341 Transportation Equipment

Adjustment

(17,555)

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40 TOTALS

\$ (17,555)

41

42 SUPPORTING SCHEDULE

43 Staff Adjustment #7

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - F

Exhibit  
Rebuttal Schedule B-2  
Page 3.6  
Witness: Bourassa

Line

No.

Retirements

2

3

4

Acct.

Year

5

No. Description

Reflected on B-2 Plant<sup>1</sup>

Adjustment

6

341 Transportation Equipment

2008

\$ (40,196)

7

8

9

\$ (40,196)

10

Reclassifications

11

12

Acct.

Year

13

No. Description

Year

Reflected on B-2 Plant<sup>1</sup>

Adjustment

14

341 Transportation Equipment

see below

\$ (15,144)

15

331 Trans. and Dist. Mains

2012

2012

3,985

16

345 Power Operated Equipment

2008

2008

18,003

17

331 Trans. and Dist. Mains

2006

2008

(6,844)

18

19

\$ -

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Total Adjustment

\$ (40,196)

41

SUPPORTING SCHEDULE

42

Work papers - Supplemental Response to RUCO 6.01

43

44

45

<sup>1</sup> Post last test year end date

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - G

Exhibit  
Rebuttal Schedule B-2  
Page 3.7  
Witness: Bourassa

Line

No.

Reconciliation of Plant to Plant Reconstruction

		Adjusted		Rebuttal	Rebuttal	
		Original	B-2	Adjusted	Plant	
		Cost	Adjustments	Cost	Per	Difference
	Acct.				Reconstruction	
	No. Description					
6	301	21,100	-	21,100	21,100	-
7	302	-	-	-	-	-
8	303	1,456,278	(6,000)	1,450,278	1,450,278	-
9	304	28,000,916	(2,964,545)	25,036,371	25,036,371	-
10	305	-	-	-	-	-
11	306	-	-	-	-	-
12	307	3,097,345	116,770	3,214,114	3,214,114	(0)
13	308	-	-	-	-	-
14	309	-	-	-	-	-
15	310	207,020	18,111	225,130	225,130	-
16	311	897,792	(23,502)	874,290	874,290	-
17	320	-	-	-	-	-
18	320.1	1,696,759	1,728,635	3,425,394	3,425,394	-
19	320.2	-	-	-	-	-
20	330	492,176	-	492,176	492,176	-
21	330.1	-	901,841	901,841	901,841	-
22	330.2	-	-	-	-	-
23	331	40,259,045	(2,859)	40,256,187	40,256,187	0
24	333	5,350,963	-	5,350,963	5,350,963	-
25	334	4,759,560	-	4,759,560	4,759,560	-
26	335	3,304,755	(2,608)	3,302,147	3,302,148	0
27	336	38,387	-	38,387	38,387	-
28	339	259,531	-	259,531	259,531	-
29	340	651,098	6,555	657,653	657,653	-
30	340.1	-	7,995	7,995	7,995	-
31	341	307,592	(72,896)	234,696	234,697	1
32	342	37,143	-	37,143	37,143	-
33	343	47,434	-	47,434	47,434	-
34	344	5,803	-	5,803	5,803	-
35	345	-	18,003	18,003	18,003	(0)
36	346	128,402	-	128,402	128,402	-
37	347	-	-	-	-	-
38	348	132,312	(9,897)	122,414	122,414	-
39	Rounding					(1)
40	TOTALS	\$ 91,151,411	\$ (284,397)	\$ 90,867,014	\$ 90,867,015	\$ 0

41

42

SUPPORTING SCHEDULE

44 B-2, pages 3.1 through 3.6

45 B-2, pages 3.8 through 3.12

Line No.		NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision		2008							Accum. Deprec.		
					Plant at 9/30/2008	Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	3 months	Plant Balance	Accum. Deprec.
1	301		Organization Cost	0.00%	21,100	-	-	-	-	-	-	-	-	-	21,100	-
2	302		Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303		Land and Land Rights	0.00%	1,284,595	-	(367,902)	-	(367,902)	-	-	-	-	-	916,693	-
4	304		Structures & Improvements	3.33%	24,648,251	404,869	(1,026,408)	(20,938)	(1,047,346)	-	-	-	200,845	-	23,601,905	605,714
5	305		Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306		Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307		Wells & Springs	3.33%	2,393,491	631,793	163	-	163	-	-	-	19,926	-	2,393,653	651,720
8	308		Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
9	309		Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310		Power Generation Equipment	5.00%	202,269	56,403	-	-	-	-	-	-	2,528	-	202,269	58,932
11	311		Pumping Equipment	12.50%	917,055	598,038	11,723	-	11,723	420,594	420,594	-	22,269	-	508,184	199,713
12	320		Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1		Water Treatment Plants	3.33%	1,337,824	41,009	(46,530)	-	(46,530)	-	-	-	10,944	-	1,291,294	51,953
14	320.2		Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330		Distribution Reservoirs & Standpipes	2.22%	439,244	174,417	600	-	600	-	-	-	2,439	-	439,844	176,856
16	330.1		Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2		Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
18	331		Transmission & Distribution Mains	2.00%	28,918,695	3,844,739	724,203	(10,868)	708,491	-	-	-	146,360	-	29,625,186	3,991,099
19	333		Services	3.33%	4,245,838	900,899	164,164	(15,825)	148,539	-	-	-	35,965	-	4,394,377	936,664
20	334		Meters	8.33%	4,133,092	1,931,628	5,723	-	5,723	-	-	-	86,131	-	4,138,815	2,017,760
21	335		Hydrants	2.00%	2,055,781	163,913	91,012	-	91,012	-	-	-	10,506	-	2,146,793	174,420
22	336		Backflow Prevention Devices	6.67%	38,387	7,548	-	-	-	-	-	-	640	-	38,387	8,186
23	339		Other Plant & Misc Equipment	6.67%	259,531	33,497	-	-	-	-	-	-	4,328	-	259,531	37,825
24	340		Office Furniture & Equipment	6.67%	551,757	124,967	-	-	-	-	-	-	8,201	-	551,757	134,187
25	340.1		Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	341		Transportation Equipment	20.00%	174,415	83,060	-	(11,159)	(11,159)	40,196	40,196	-	7,437	-	123,060	50,301
27	342		Stores Equipment	4.00%	31,711	1,566	-	-	-	-	-	-	317	-	31,711	1,903
28	343		Tools, Shop & Garage Equipment	5.00%	23,350	7,113	-	-	-	-	-	-	292	-	23,350	7,405
29	344		Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
30	345		Power Operated Equipment	5.00%	-	-	-	18,003	18,003	-	-	-	113	-	18,003	113
31	346		Communication Equipment	10.00%	119,710	21,730	-	-	-	-	-	-	2,993	-	119,710	24,723
32	347		Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
33	348		Other Tangible Plant	10.00%	-	-	2,475	-	2,475	-	-	-	31	-	2,475	31
34			Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35			TOTALS		71,797,096	9,027,027	(440,777)	(47,431)	(488,208)	460,790	460,790	-	563,265	-	70,846,098	9,128,503

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rebuttal Schedule B-2  
Page 3.9  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009									
				Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage AD Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	82,495	-	-	82,495	-	-	-	-	-	-
4	304	Structures & Improvements	3.33%	1,190,719	(21,984)	(1,036,948)	131,787	-	-	-	788,138	23,733,882	1,393,852
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	501,310	(773)	65,920	566,457	-	-	-	88,140	2,960,110	740,880
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	21,214	-	10,851	32,065	-	-	-	10,113	202,269	88,045
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	63,339	505,241	228,044
13	320.1	Water Treatment Plants	3.33%	2,479	(24,987)	287,816	285,308	-	-	-	47,417	1,556,602	98,370
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	664,366	664,366	-	-	-	7,374	664,366	7,374
18	331	Transmission & Distribution Mains	2.00%	1,906,160	(18,864)	-	1,887,296	-	-	-	611,379	31,512,883	4,602,477
19	333	Services	3.33%	1,580,515	-	-	1,580,515	-	-	-	172,648	5,974,892	1,108,312
20	334	Meters	8.33%	51,571	-	-	51,571	-	-	-	346,911	4,190,366	2,384,871
21	335	Hydrants	2.00%	309,661	-	-	309,661	-	-	-	46,032	2,456,464	220,452
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	2,560	38,387	10,746
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	17,311	259,531	55,135
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	36,802	551,757	170,990
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	800	7,995	800
26	341	Transportation Equipment	20.00%	-	-	7,995	7,995	-	-	-	24,612	123,060	74,913
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	1,288	31,711	3,171
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	1,168	23,350	8,573
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	800	18,003	1,013
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	11,971	119,710	38,694
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	15,420	-	-	15,420	-	-	-	1,019	17,895	1,049
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		5,671,544	(66,408)	0	5,605,136	35,008	35,008	-	2,280,668	76,418,226	11,385,163

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rebuttal Schedule B-2  
Page 3,10  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage Add Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	430,531	(53)	-	430,478	-	-	-	-	1,439,668	-
4	304	Structures & Improvements	3.33%	1,284,065	(3,776)	(1,245,500)	34,789	-	-	-	780,911	23,768,481	2,184,763
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	56,518	-	-	56,518	-	-	-	99,513	3,016,628	840,373
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	61,729	-	13,620	75,349	20,920	20,920	-	10,113	202,269	79,159
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	66,557	559,870	273,881
13	320.1	Water Treatment Plants	3.33%	353,630	(34)	1,215,221	1,568,817	-	-	-	77,956	3,125,420	177,326
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	20,000	20,000	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,611,724	(3,139)	-	1,608,585	-	-	-	646,339	33,121,267	5,248,817
19	333	Services	3.33%	307,502	(207)	-	307,294	-	-	-	204,080	6,282,186	1,313,382
20	334	Meters	8.33%	167,302	-	-	167,302	-	-	-	356,027	4,357,668	2,720,698
21	335	Hydrants	2.00%	221,507	(2,608)	-	218,899	-	-	-	51,318	2,675,353	271,770
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	2,560	38,387	13,307
23	338	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	17,311	258,531	72,446
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	37,021	558,312	206,010
25	340.1	Computers & Software	20.00%	-	-	6,555	6,555	-	-	-	1,598	7,985	2,396
26	341	Transportation Equipment	20.00%	4,845	-	-	4,845	-	-	-	25,067	127,905	100,009
27	342	Stores Equipment	4.00%	3,688	-	-	3,688	-	-	-	1,342	35,399	4,513
28	343	Tools, Shop & Garage Equipment	5.00%	939	-	-	939	-	-	-	1,191	24,289	9,764
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	900	18,003	1,913
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	11,971	119,710	48,665
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	2,341	28,922	3,390
34		Plant Held for Future Use		20,924	-	(9,897)	11,027	-	-	-	-	-	-
35		TOTALS		4,524,902	(9,816)	(0)	4,515,085	20,920	20,920	-	2,428,883	80,912,382	13,793,126

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rebuttal Schedule B-2  
Page 3.11  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011						
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only
										Depreciation (Calculated)
									Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	8,476	-	2,268	-	-	1,441,954	-
4	304	Structures & Improvements	3.33%	549,237	(8,757)	46,156	-	-	23,814,637	2,977,022
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	19,010	(686)	87,282	-	-	3,103,910	942,279
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	4,566	-	22,706	-	-	-	-
11	311	Pumping Equipment	12.50%	220,561	(47,974)	169,271	1,327	-	224,976	89,840
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	727,815	352,809
13	320.1	Water Treatment Plants	3.33%	28,534	(223)	253,508	-	-	3,379,328	285,630
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	53,676	(1,344)	52,332	-	-	482,176	206,731
16	330.1	Storage Tanks	2.22%	-	-	217,475	-	-	901,841	39,952
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	5,388,147	(8,802)	5,379,345	-	-	38,500,612	5,965,036
19	333	Services	3.33%	382,109	(944)	381,165	-	-	6,863,351	1,528,936
20	334	Meters	8.33%	267,613	(4,811)	262,802	-	-	4,620,489	3,084,639
21	335	Hydrants	2.00%	512,865	(573)	512,312	-	-	3,187,665	330,400
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	38,387	15,867
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	259,531	89,757
24	340	Office Furniture & Equipment	6.67%	9,928	-	9,928	-	-	568,240	246,581
25	340.1	Computers & Software	20.00%	-	-	-	-	-	7,985	3,988
26	341	Transportation Equipment	20.00%	26,185	(636)	25,550	17,555	-	135,900	108,835
27	342	Stores Equipment	4.00%	1,116	-	1,116	-	-	36,515	5,952
28	343	Tools, Shop & Garage Equipment	5.00%	578	-	578	-	-	24,887	10,993
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	18,003	2,813
31	346	Communication Equipment	10.00%	3,986	(49)	3,937	-	-	123,647	60,833
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	44,349	-	44,349	-	-	73,271	8,500
34		Plant Held for Future Use		-	-	-	-	-	-	-
35				-	-	-	-	-	-	-
36		TOTALS		7,520,985	(36,328)	7,472,500	18,882	-	88,366,010	16,366,402
					(12,156)		18,882	-	2,582,158	

Litchfield Park Service Company - Water Division  
 dba Liberty Utilities  
 Plant Additions and Retirements

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.12  
 Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant only B-2 Adjust	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	8,324	-	-	8,324	-	-	-	-	-	-	1,450,278	-
4	304	Structures & Improvements	3.33%	1,405,618	(5,268)	(178,617)	1,221,734	-	-	-	-	65,110	813,369	25,036,371	3,855,501
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	142,604	(726)	(18,108)	123,770	13,565	-	13,565	-	-	-	-	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	3,214,114	1,033,909
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	155	-	-	155	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	147,387	(712)	-	146,675	-	-	-	-	-	11,253	225,130	101,092
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	14,898	100,119	874,280	467,627
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	46,116	(50)	-	46,066	-	-	-	-	-	113,296	3,425,394	398,928
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,808,114	(8,947)	-	1,803,153	47,578	-	47,578	-	1,827	787,568	40,256,187	6,706,853
19	333	Services	3.33%	(1,200,817)	(1,065)	-	(1,201,882)	110,506	-	110,506	-	-	200,038	5,350,963	1,618,468
20	334	Meters	8.33%	233,873	(3,333)	-	230,540	91,470	-	91,470	-	7,444	390,679	4,759,560	3,401,292
21	335	Hydrants	2.00%	120,565	(2,471)	-	118,114	3,631	-	3,631	-	-	64,898	3,302,148	391,667
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	2,560	38,387	18,428
23	338	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	568	17,311	259,531	107,636
24	340	Office Furniture & Equipment	20.00%	89,413	-	-	89,413	-	-	-	-	-	40,884	657,653	286,464
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	1,598	7,995	5,597
26	341	Transportation Equipment	20.00%	111,782	(1,468)	-	108,328	7,532	-	7,532	-	-	37,060	234,687	138,363
27	342	Stores Equipment	4.00%	628	-	-	628	-	-	-	-	-	1,473	37,143	7,425
28	343	Tools, Shop & Garage Equipment	5.00%	22,870	(303)	-	22,567	-	-	-	-	-	1,808	47,434	12,800
29	344	Laboratory Equipment	10.00%	5,803	-	-	5,803	-	-	-	-	-	800	5,803	280
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	18,003	3,713
31	346	Communication Equipment	10.00%	4,827	(72)	-	4,755	-	-	-	-	488	12,602	128,402	73,934
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	48,143	-	-	48,143	-	-	-	-	1,695	8,784	122,414	19,980
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35		TOTALS		2,896,426	(24,414)	(186,725)	2,775,287	274,282	-	274,282	-	81,841	2,743,836	90,867,015	18,927,587

**Exhibit  
Rebuttal Schedule B-2  
Page 4  
Witness: Bourassa**

Original Cost Rate Base Proforma Adjustments

Original Cost Rate Base Proforma Adjustments

### Adjustment Number 2

## Line

[illegible]

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - A

Exhibit  
Rebuttal Schedule B  
Page 4.1  
Witness: Bourassa

Line

No.

1 A/D related to True-up of Accruals

2

3

4

Acct.

Original

5

No. Description

Cost

Depr Rate

Years

A/D

6

304 Structures and Improvements

(178,617)

3.33%

0.50

(2,974)

7

307 Wells and Springs

(18,108)

3.33%

0.50

(301)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

TOTALS

\$ (196,725)

\$ (3,275)

41

42

SUPPORTING SCHEDULE

43

Schedule B-2, page 3.1

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - B

Exhibit  
Rebuttal Schedule B-2  
Page 4.2  
Witness: Bourassa

Line

No.

1 Reclassification of Plant - A/D

2

3

4 Acct.

Depr

Years

Plant

A/D

5 No. Description

Year

Rate

Years

Adjustment

Adjustment

6 304 Structures and Improvements 2009 3.33% 3.5 \$ (1,036,948) \$ (120,856)

7 304 Structures and Improvements 2010 3.33% 2.5 (1,245,500) (103,688)

8 304 Structures and Improvements 2011 3.33% 1.5 (494,324) (24,691)

9 Subtotal

\$ (2,776,772) \$ (249,236)

10 307 Wells and Springs 2009 3.33% 3.5 65,920 7,683

11 307 Wells and Springs 2010 3.33% 2.5 - -

12 307 Wells and Springs 2011 3.33% 1.5 68,958 3,444

13 Subtotal

\$ 134,878 \$ 11,127

14 310 Power Generation Equipment 2009 5.00% 3.5 - -

15 310 Power Generation Equipment 2010 5.00% 2.5 - -

16 310 Power Generation Equipment 2011 5.00% 1.5 18,111 1,358

17 Subtotal

\$ 18,111 \$ 1,358

18 311 Electric Pumping Equipment 2009 12.50% 3.5 10,851 4,747

19 311 Electric Pumping Equipment 2010 12.50% 2.5 13,620 4,256

20 311 Electric Pumping Equipment 2011 12.50% 1.5 (47,974) (8,995)

21 Subtotal

\$ (23,502) \$ 9

22 320.1 Water Treatment Plant 2009 3.33% 3.5 287,816 33,545

23 320.1 Water Treatment Plant 2010 3.33% 2.5 1,215,221 101,167

24 320.1 Water Treatment Plant 2011 3.33% 1.5 225,598 11,269

25 Subtotal

\$ 1,728,635 \$ 145,981

26 330.1 Storage tanks 2009 2.22% 3.5 664,366 51,621

27 330.1 Storage tanks 2010 2.22% 2.5 20,000 1,110

28 330.1 Storage tanks 2011 2.22% 1.5 217,475 7,242

29 Subtotal

\$ 901,841 \$ 59,973

30 340 Office Furniture and Fixtures 2009 6.67% 3.5 - -

31 340 Office Furniture and Fixtures 2010 6.67% 2.5 6,555 1,093

32 340 Office Furniture and Fixtures 2011 6.67% 1.5 - -

33 Subtotal

\$ 6,555 \$ 1,093

34 340.1 Computers and Software 2009 20.00% 3.5 7,995 5,597

35 340.1 Computers and Software 2010 20.00% 2.5 - -

36 340.1 Computers and Software 2011 20.00% 1.5 - -

37 Subtotal

\$ 7,995 \$ 5,597

38 348 Other Tangible Plant 2009 10.00% 3.5 - -

39 348 Other Tangible Plant 2010 10.00% 2.5 (9,897) (2,474)

40 348 Other Tangible Plant 2011 10.00% 1.5 - -

41 Subtotal

\$ (9,897) \$ (2,474)

42

43

44 TOTALS

\$ (12,156) \$ (26,572)

45

46 SUPPORTING SCHEDULE

47 Schedule B-2, page 3.2

48

49

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - C

Exhibit  
Rebuttal Schedule B-2  
Page 4.3  
Witness: Bourassa

Line

No.

1 Plant Not Used and Useful

2

3

4 Acct.

5 No. Description

6 303 Land and Land Rights

7 304 Structures and Improvements

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

TOTALS

41

42

43

44

45

<u>No.</u>	<u>Description</u>	<u>Year</u>	<u>Depr</u> <u>Rate</u>	<u>Years</u>	<u>Plant</u> <u>Adjustment</u>	<u>A/D</u> <u>Adjustment</u>
303	Land and Land Rights	2011	0.00%	1.5	(6,000)	-
304	Structures and Improvements	2011	3.33%	1.5	(6,156)	(308)

\$	(12,156)	\$	(308)
----	----------	----	-------

SUPPORTING SCHEDULE

Schedule B-2, page 3.3

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - D

Exhibit  
Rebuttal Schedule B-2  
Page 4.4  
Witness: Bourassa

Line

No.

Duplicate Invoices

2

3

4

Acct.

Depr

Plant

A/D

5

No.

Description

Year

Rate

Years

Adjustment

Adjustment

6

304

Structures and Improvements

2010

3.33%

2.5

(3,000)

(250)

7

335

Hydrants

2010

2.00%

2.5

(2,608)

(130)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

TOTALS

40

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #7

44

45

\$ (5,608) \$ (380)

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - E

Exhibit  
Rebuttal Schedule B-2  
Page 4.5  
Witness: Bourassa

Line

No.

1 Retirement of Transportation Equipment - A/D

2

3

4

Acct.

5 No. Description Year of Retirement

6 341 Transportation Equipment 2011 Adjustment  
(17,555)

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39 Plant Held for Future Use

40 TOTALS

\$ (17,555)

41

42 SUPPORTING SCHEDULE

43 Staff Adjustment #7

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - F

Exhibit  
Rebuttal Schedule E  
Page 4.6  
Witness: Bourassa

Line  
No.

1	<u>Accumulated Depreciation - Annualization Correction</u>			
2				
3		Adjusted	Rebuttal	
4	Acct.	Original	Adjusted	Annualized
5	<u>No.</u> <u>Description</u>	<u>Cost</u>	<u>Original</u> <u>Cost</u>	<u>Depreciation</u> <u>Correction</u>
6	301 Organization Cost	21,100	-	(21,100)
7	302 Franchise Cost	-	-	-
8	303 Land and Land Rights	-	-	-
9	304 Structures and Improvements	3,036,910	4,043,158	1,006,248
10	305 Collecting and Impounding Res.	-	-	-
11	306 Lake River and Other Intakes	-	-	-
12	307 Wells and Springs	915,114	1,023,083	107,969
13	308 Infiltration Galleries and Tunnels	-	-	-
14	309 Supply Mains	-	-	-
15	310 Power Generation Equipment	87,092	99,734	12,642
16	311 Electric Pumping Equipment	759,242	452,920	(306,323)
17	320 Water Treatment Equipment	-	-	-
18	320.1 Water Treatment Plant	199,379	252,948	53,569
19	320.2 Chemical Solution Feeders	-	-	-
20	330 Dist. Reservoirs & Standpipe	205,453	217,657	12,204
21	330.1 Storage tanks	-	-	-
22	330.2 Pressure Tanks	-	-	-
23	331 Trans. and Dist. Mains	5,947,658	6,705,550	757,892
24	333 Services	1,409,855	1,618,468	208,613
25	334 Meters	2,960,806	3,393,848	433,042
26	335 Hydrants	335,259	391,798	56,539
27	336 Backflow Prevention Devices	15,227	18,428	3,201
28	339 Other Plant and Misc. Equip.	85,429	107,068	21,638
29	340 Office Furniture and Fixtures	239,369	285,371	46,003
30	340.1 Computers and Software	-	-	-
31	341 Transportation Equipment	200,543	244,147	43,604
32	342 Stores Equipment	5,839	7,425	1,586
33	343 Tools and Work Equipment	11,341	12,800	1,459
34	344 Laboratory Equipment	290	290	(0)
35	345 Power Operated Equipment	-	-	-
36	346 Communications Equipment	58,472	73,436	14,964
37	347 Miscellaneous Equipment	-	-	-
38	348 Other Tangible Plant	19,709	20,759	1,049
39	Plant Held for Future Use	-	-	-
40	TOTALS	\$ 16,514,086	\$ 18,968,887	\$ 2,454,800

41  
42  
43  
44  
45

SUPPORTING SCHEDULE  
Staff Adjustment #2

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - G

Exhibit  
Rebuttal Schedule E  
Page 4.7  
Witness: Bourassa

Line

No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

2

3

4 Acct.

Depreciation

5 No. Description

Correction

6 301 Organization Cost

-

7 302 Franchise Cost

-

8 303 Land and Land Rights

-

9 304 Structures and Improvements

65,110

10 305 Collecting and Impounding Res.

-

11 306 Lake River and Other Intakes

-

12 307 Wells and Springs

-

13 308 Infiltration Galleries and Tunnels

-

14 309 Supply Mains

-

15 310 Power Generation Equipment

-

16 311 Electric Pumping Equipment

14,698

17 320 Water Treatment Equipment

-

18 320.1 Water Treatment Plant

-

19 320.2 Chemical Solution Feeders

-

20 330 Dist. Reservoirs & Standpipe

-

21 330.1 Storage tanks

-

22 330.2 Pressure Tanks

-

23 331 Trans. and Dist. Mains

1,827

24 333 Services

-

25 334 Meters

7,444

26 335 Hydrants

-

27 336 Backflow Prevention Devices

-

28 339 Other Plant and Misc. Equip.

568

29 340 Office Furniture and Fixtures

-

30 340.1 Computers and Software

-

31 341 Transportation Equipment

-

32 342 Stores Equipment

-

33 343 Tools and Work Equipment

-

34 344 Laboratory Equipment

-

35 345 Power Operated Equipment

-

36 346 Communications Equipment

498

37 347 Miscellaneous Equipment

-

38 348 Other Tangible Plant

1,695

39

40 TOTALS

\$ 91,841

41

42

43 SUPPORTING SCHEDULE

44 Work papers

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - H

Exhibit  
Rebuttal Schedule B-2  
Page 4.8  
Witness: Bourassa

Line

No.

Retirements A/D

2

3

4 Acct.

5 No. Description

6 341 Transportation Equipment

Year of Retirement

2008

Adjustment

(40,196)

7

8 Total

\$ (40,196)

9

10

Reclassifications A/D

12

13 Acct.

14 No. Description

15 341 Transportation Equipment

16 341 Transportation Equipment

17 341 Transportation Equipment

18 Subtotal

19

20 331 Trans. and Dist. Mains

21 345 Power Operated Equipment

22 331 Trans. and Dist. Mains

23 Subtotal

24

25 Total

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42

43

44

45

1

Post last test year end date

Depr

Rate

20.00%

20.00%

20.00%

2.00%

5.00%

2.00%

Years<sup>1</sup>

0.5

4.125

4.125

4.125

4.125

4.125

4.125

4.125

4.125

Plant

Adjustment

\$ (3,985)

(18,003)

6,844

\$ (15,144)

\$ 3,985

18,003

(6,844)

\$ 15,144

A/D

Adjustment

\$ (399)

(14,853)

5,646

\$ (9,605)

\$ 40

3,713

(565)

\$ 3,188

\$ (6,416)

\$ (46,613)

SUPPORTING SCHEDULE

Schedule B-2, page 3.6

Work papers

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - I

Exhibit  
Rebuttal Schedule B-2  
Page 4.9  
Witness: Bourassa

Line No.	Acct.	Description	Adjusted Original Cost A/D	B-2 Adjustments	Rebuttal Adjusted Original Cost A/D	Rebuttal A/D Per Reconstruction	Difference
1		<u>Reconciliation of A/D to A/D Reconstruction</u>					
2							
3							
4							
5							
6	301	Organization Cost	21,100	(21,100)	-	-	-
7	302	Franchise Cost	-	-	-	-	-
8	303	Land and Land Rights	-	-	-	-	-
9	304	Structures and Improvements	3,036,910	818,591	3,855,501	3,855,501	-
10	305	Collecting and Impounding Res.	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-
12	307	Wells and Springs	915,114	118,795	1,033,909	1,033,909	(0)
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-
15	310	Power Generation Equipment	87,092	14,000	101,092	101,092	-
16	311	Electric Pumping Equipment	759,242	(291,615)	467,627	467,627	-
17	320	Water Treatment Equipment	-	-	-	-	-
18	320.1	Water Treatment Plant	199,379	199,550	398,928	398,928	-
19	320.2	Chemical Solution Feeders	-	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	205,453	12,204	217,657	217,657	-
21	330.1	Storage tanks	-	59,973	59,973	59,973	-
22	330.2	Pressure Tanks	-	-	-	-	-
23	331	Trans. and Dist. Mains	5,947,658	759,195	6,706,853	6,706,853	0
24	333	Services	1,409,855	208,613	1,618,468	1,618,468	-
25	334	Meters	2,960,806	440,486	3,401,292	3,401,292	-
26	335	Hydrants	335,259	56,408	391,667	391,667	0
27	336	Backflow Prevention Devices	15,227	3,201	18,428	18,428	-
28	339	Other Plant and Misc. Equip.	85,429	22,207	107,636	107,636	-
29	340	Office Furniture and Fixtures	239,369	47,096	286,464	286,464	-
30	340.1	Computers and Software	-	5,597	5,597	5,597	-
31	341	Transportation Equipment	200,543	(29,292)	171,251	138,363	(32,888)
32	342	Stores Equipment	5,839	1,586	7,425	7,425	-
33	343	Tools and Work Equipment	11,341	1,459	12,800	12,800	-
34	344	Laboratory Equipment	290	(0)	290	290	-
35	345	Power Operated Equipment	-	3,713	3,713	3,713	(0)
36	346	Communications Equipment	58,472	15,462	73,934	73,934	-
37	347	Miscellaneous Equipment	-	-	-	-	-
38	348	Other Tangible Plant	19,709	271	19,980	19,980	-
39		Plant Held for Future Use	-	-	-	-	-
40		TOTALS	\$ 16,514,086	\$ 2,446,399	\$ 18,960,485	\$ 18,927,597	\$ (32,888)

42  
43 SUPPORTING SCHEDULE  
44 B-2, pages 4.1 through 4.8  
45 B-2, pages 3.8 through 3.12

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Rebuttal Schedule B-2  
Page 5  
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line

No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Computed balance at 12/31/2012

Adjusted balance at 12/31/2012

Increase (decrease)

Adjustment to CIAC/AA CIAC

Label

Gross  
CIAC

\$ 7,425,812

\$ 7,324,578

\$ 101,234

\$ 101,234

3a

Accumulated  
Amortization

\$ 1,285,854

\$ 1,489,772

\$ (203,918)

\$ 203,918

3b

SUPPORTING SCHEDULES

E-1

B-2, page 5.1 to 5.4

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Contributions-in-aid of Construction and Amortization  
Adjustment 4

Exhibit  
Rebuttal Schedule B-2  
Page 5.1  
Witness: Bourassa

Line No.		GL Account	Depr'n Rate	Balance at 9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1	Wells & Sprngs Contributed	8600.2.0100.10.1615.0011 Prior to Nov 2002	3.33%	-	-	-	499,000	499,000
2	Amortization Accum Amort.	8600.2.0000.10.1641.0100		-	-	-	8,308	8,308
3	Pumping Equipment - Contribu	8600.2.0100.10.1615.0011 Prior to Nov 2002	12.50%	15,219		15,219	-	15,219
4	Amortization Accum Amort.	8600.2.0000.10.1641.0100		18,824	476	19,300	1,902	21,202
5	Trans/Dist Main Contributed	8600.2.0100.10.1615.0020	2.00%	2,846,725		2,846,725		2,846,725
6	Amortization Accum Amort.	8600.2.0000.10.1641.0100		742,400	14,234	756,634	56,935	813,568
7	Services Contributed	8600.2.0100.10.1615.0013	3.33%	151,402		151,402	448,505	599,907
8	Amortization Accum Amort.	8600.2.0000.10.1641.0100		36,723	1,260	37,983	12,509	50,492
9	Meters Contributed	8600.2.0100.10.1615.0021	8.33%	29,899		29,899		29,899
10	Amortization Accum Amort.	8600.2.0000.10.1641.0100		29,708	191	29,899	-	29,899
11	Hydrants Contributed	8600.2.0100.10.1615.0022	2.00%	52,935		52,935		52,935
12	Amortization Accum Amort.	8600.2.0000.10.1641.0100		33,051	265	33,316	1,059	34,375
13	Land Contributed	8600.2.0100.10.1615.0022	0.00%	-		-	92,495	92,495
14				-	-	-	-	-
15				-	-	-	-	-
16	<b>Total CIAC Water</b>			<b>3,096,180</b>		<b>3,096,180</b>		<b>4,136,180</b>
17	<b>Total Accum Amort.</b>			<b>860,706</b>		<b>877,131</b>		<b>957,844</b>

Litchfield Park Service Company - Water Division dba Liberty Utilities

Test Year Ended December 31, 2012

Original Cost Rate Base Proforma Adjustments

Contributions-in-aid of Construction and Amortization

Adjustment 4

Exhibit  
Schedule B-2  
Page 5.2  
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1	Wells & Springs Contributed	3.33%	8600.2.0100.10.1615.0011 Prior to Nov 2002	-	489,000		489,000
2							
3	Amortization			16,617		16,617	
4	Accum Amort.		8600.2.0000.10.1641.0100	16,617	24,925	16,617	41,542
5							
6	Pumping Equipment - Contrib	12.50%	8600.2.0100.10.1615.0011 Prior to Nov 2002	-	15,219	25,353	40,572
7							
8	Amortization			1,902		3,487	
9	Accum Amort.		8600.2.0000.10.1641.0100	1,902	23,104	3,487	26,591
10							
11	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020		2,846,725	-	2,846,725
12							
13	Amortization			56,935		56,935	
14	Accum Amort.		8600.2.0000.10.1641.0100	56,935	870,503	56,935	927,437
15							
16	Services Contributed	3.33%	8600.2.0100.10.1615.0013		599,907		599,907
17							
18	Amortization			19,977		19,977	
19	Accum Amort.		8600.2.0000.10.1641.0100	19,977	70,469	19,977	90,446
20							
21	Meters Contributed	8.33%	8600.2.0100.10.1615.0021		29,899		29,899
22							
23	Amortization			-	29,899	-	29,899
24	Accum Amort.		8600.2.0000.10.1641.0100	-	52,935	-	52,935
25							
26	Amortization			1,059		1,059	
27	Accum Amort.		8600.2.0000.10.1641.0100	1,059	35,433	1,059	36,492
28							
29	Land Contributed	0.00%	8600.2.0100.10.1615.0022		92,495		92,495
30							
31				-	-	-	-
32				-	-	-	-
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
27	Total CIAC Water				4,136,180		4,161,533
28							
29	Total Accum Amort.				1,054,334		1,152,407

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Contributions-in-aid of Construction and Amortization  
Adjustment 4

Exhibit  
Rebuttal Schedule B-2  
Page 5.3  
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1	Wells & Springs Contributed	3.33%	8600.2.0100.10.1615.0011 Prior to Nov 2002	-	499,000
2					
3	Amortization			16,617	
4	Accum Amort.		8600.2.0000.10.1641.0100	16,617	58,158
5					
6	Pumping Equipment - Contrib	12.50%	8600.2.0100.10.1615.0011 Prior to Nov 2002	-	40,572
7					
8	Amortization			5,071	
9	Accum Amort.		8600.2.0000.10.1641.0100	5,071	31,663
10					
11	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020	3,046,493	5,893,218
12					
13	Amortization			87,399	
14	Accum Amort.		8600.2.0000.10.1641.0100	87,399	1,014,837
15					
16	Services Contributed	3.33%	8600.2.0100.10.1615.0013	172,302	772,209
17					
18	Amortization			22,846	
19	Accum Amort.		8600.2.0000.10.1641.0100	22,846	113,292
20					
21	Meters Contributed	8.33%	8600.2.0100.10.1615.0021		29,899
22					
23	Amortization			-	29,899
24	Accum Amort.		8600.2.0000.10.1641.0100	-	29,899
25					
26	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022	45,484	98,419
27					
28	Amortization			1,514	
29	Accum Amort.		8600.2.0000.10.1641.0100	1,514	38,006
30					
31	Land Contributed	0.00%	8600.2.0100.10.1615.0022		92,495
32					
33				-	-
34				-	-
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
27	Total CIAC Water				7,425,812
28					
29	Total Accum Amort.				1,285,854

Footnotes - See page 7.1

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 5

Line  
No.

<sup>1</sup> Per adjusted book balances, land not included

<sup>2</sup> Computation of Net Tax Value December 31, 2012

Based on 2012 Tax Depreciation report (December 31, 2012) as amended  
Unadjusted Cost at December 31, 2012 per federal and state tax depr. report  
Reconciling items not on tax report:  
Land on Tax and not on included in adjusted plant balance  
FA Accrual on not on tax report  
Proposed Plant Retirements  
Post Test Year plant

Net Unadjusted Cost tax Basis at December 31, 2012

**Reductions**  
Basis Reduction 2012 and Prior Years per federal and state tax depr. report  
Accumulated Depreciation 2012 and prior per federal and state tax depr. report  
Proposed Plant Retirements

Net Reductions through December 31, 2012

Net tax value of plant-in-service at December 31, 2012

<sup>3</sup> CIAC (including impact of change to probability of realization)

Gross CIAC per adjusted book balances  
CIAC reductions/additions  
A-A per adjusted book balances

Net CIAC before unrealized AIAC

Unrealized AIAC Component

AIAC per adjusted book balances

Adjusted Net AIAC (see footnote 5 below)

Unrealized AIAC Component % (1-Realized AIAC Component)

Total realizable CIAC

<sup>4</sup> AIAC (including impact of change in probability of realization)

AIAC per adjusted book balances

Less: Unrealized AIAC (from Note 3, above)

Subtotal

Meter and Service Line Installation Charges per adjusted book balances

Total realizable AIAC

FEDERAL		STATE	
\$ 85,943,311		\$ 84,887,919	
(1,055,392)		-	
6,391,333		6,391,333	
(1,712,539)		(1,712,539)	
1,200,000		1,200,000	
	\$ 90,766,713		\$ 90,766,713
\$ (25,331,094)		\$ -	
(19,678,532)		(18,351,338)	
1,712,539		1,712,539	
	(43,297,087)		(16,638,799)
	\$ 47,469,626		\$ 74,127,914

\$ 35,802,727

\$ (5,439,155)

(5,439,155)

\$ 30,363,572

\$ 42,019,564

70.0%

\$ 29,413,695

\$ 59,777,267

\$ 42,019,564

\$ (29,413,695)

\$ 12,605,869

\$ 1,367,694

\$ 13,973,563

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 5

Exhibit  
Rebuttal Schedule B-2  
Page 7  
Witness: Bourassa

Line

No.

1 Customer Security Deposits

2

3 Adjustment to Customer Security Deposits based upon a 13 month average

\$ 7,514

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42 SUPPORTING SCHEDULE

43 Staff Adjustment #10

44

45

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 6

Exhibit  
Rebuttal Schedule B-2  
Page 8  
Witness: Bourassa

Line

No.

1 Regulatory Assets

2

3 Adjustment for additional Regulatory Asset amounts

\$ 686

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42 SUPPORTING SCHEDULE

43 RUCO Adjustment #10

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Working Capital

Exhibit  
Rebuttal Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	506,180
3	Pumping Power (1/24 of Pumping Power)		37,647
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	543,827
10			
11			
12	Working Capital Requested	\$	-
13			
14			
15			
16			
17		Rebuttal	
18	Total Operating Expense	<u>Adjusted Test Year</u>	
19	Less:	\$	9,165,639
20	Income Tax	\$	1,053,673
21	Property Tax		531,421
22	Depreciation		2,627,581
23	Purchased Water		-
24	Pumping Power		903,527
25	Allowable Expenses	\$	4,049,437
26	1/8 of allowable expenses	\$	506,180
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	E-1	B-1	
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rebuttal Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rebuttal Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 10,965,545	\$ -	\$ 10,965,545	\$ 1,668,790	\$ 12,634,335
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	235,723	-	235,723	-	235,723
5		<u>\$ 11,201,268</u>	<u>\$ -</u>	<u>\$ 11,201,268</u>	<u>\$ 1,668,790</u>	<u>\$ 12,870,058</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 1,069,839	-	\$ 1,069,839	-	\$ 1,069,839
8	Purchased Water	2,615	-	2,615	-	2,615
9	Purchased Power	903,527	-	903,527	-	903,527
10	Fuel For Power Production	-	-	-	-	-
11	Chemicals	208,080	-	208,080	-	208,080
12	Materials and Supplies	91,139	-	91,139	-	91,139
13	Management Services - US Liberty Water	1,260,835	(10,249)	1,250,586	-	1,250,586
14	Management Services - Corporate	781,023	-	781,023	-	781,023
15	Management Services - Other	-	-	-	-	-
16	Outside Services - Accounting	9,271	-	9,271	-	9,271
17	Outside Services - Engineering	-	-	-	-	-
18	Outside Services- Other	103,412	-	103,412	-	103,412
19	Outside Services- Legal	19,865	-	19,865	-	19,865
20	Water Testing	66,942	(22,062)	44,880	-	44,880
21	Rents - Building	-	-	-	-	-
22	Rents - Equipment	7,229	-	7,229	-	7,229
23	Transportation Expenses	103,726	-	103,726	-	103,726
24	Insurance - General Liability	88,374	-	88,374	-	88,374
25	Insurance - Vehicle	20,825	-	20,825	-	20,825
26	Reg. Comm. Exp. - Other	19,721	851	20,572	-	20,572
27	Reg. Comm. Exp. - Rate Case	65,800	-	65,800	-	65,800
28	Miscellaneous Expense	151,237	(10,177)	141,060	-	141,060
29	Bad Debt Expense	(76)	21,216	21,140	-	21,140
30	Depreciation and Amortization Expense	2,615,868	11,713	2,627,581	-	2,627,581
31	Taxes Other Than Income	-	-	-	-	-
32	Property Taxes	559,122	(27,701)	531,421	26,505	557,926
33	Income Tax	1,028,589	25,084	1,053,673	628,831	1,682,504
34		-	-	-	-	-
35	<b>Total Operating Expenses</b>	<u>\$ 9,176,963</u>	<u>\$ (11,324)</u>	<u>\$ 9,165,639</u>	<u>\$ 655,336</u>	<u>\$ 9,820,974</u>
36	<b>Operating Income</b>	<u>\$ 2,024,305</u>	<u>\$ 11,324</u>	<u>\$ 2,035,629</u>	<u>\$ 1,013,454</u>	<u>\$ 3,049,083</u>
37	<b>Other Income (Expense)</b>					
38	Interest Income	-	-	-	-	-
39	Other income	-	-	-	-	-
40	Interest Expense	(388,078)	50,600	(337,479)	-	(337,479)
41	Other Expense	-	-	-	-	-
42		-	-	-	-	-
43	<b>Total Other Income (Expense)</b>	<u>\$ (388,078)</u>	<u>\$ 50,600</u>	<u>\$ (337,479)</u>	<u>\$ -</u>	<u>\$ (337,479)</u>
44	<b>Net Profit (Loss)</b>	<u>\$ 1,636,227</u>	<u>\$ 61,924</u>	<u>\$ 1,698,151</u>	<u>\$ 1,013,454</u>	<u>\$ 2,711,605</u>

SUPPORTING SCHEDULES:

C-1, page 2

E-2

RECAP SCHEDULES:

A-1

Litchfield Park Service Company - Water Division  
 dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.1  
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	8	9
	Adjusted Test Year Results	Property Taxes	Water Testing	Corporate Expense True-up	Corporate Allocation Expense	Interest on Customer Deposits	Bad Debt Expense	Misc. Expense	Amortization Regulatory Assets
1 Revenues									
2 Metered Water Revenues	\$ 10,965,545								
3 Unmetered Water Revenues	-								
4 Other Water Revenues	235,723								
5	\$ 11,201,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6 Operating Expenses									
7 Salaries and Wages	\$ 1,069,839								
8 Purchased Water	2,615								
9 Purchased Power	903,527								
10 Fuel For Power Production	-								
11 Chemicals	209,080								
12 Materials and Supplies	91,139								
13 Management Services - US Liberty Water	1,260,835			(8,420)	(1,828)				
14 Management Services - Corporate	781,023								
15 Management Services - Other	-								
16 Outside Services - Accounting	9,271								
17 Outside Services - Engineering	-								
18 Outside Services- Other	103,412								
19 Outside Services- Legal	19,865		(22,062)						
20 Water Testing	66,942								
21 Rents - Building	-								
22 Rents - Equipment	7,229								
23 Transportation Expenses	103,726								
24 Insurance - General Liability	86,374								
25 Insurance - Vehicle	20,825								
26 Reg. Comm. Exp. - Other	19,721								
27 Reg. Comm. Exp. - Rate Case	65,800								
28 Miscellaneous Expense	151,237								
29 Bad Debt Expense	(76)								
30 Depreciation and Amortization Expense	2,615,868	11,713				5,931	21,216	(16,108)	851
31 Taxes Other Than Income	-								
32 Property Taxes	559,122	(27,701)							
33 Income Tax	1,028,589								
34									
35 Total Operating Expenses	\$ 9,176,963	\$ 11,713	\$ (22,062)	\$ (8,420)	\$ (1,829)	\$ 5,931	\$ 21,216	\$ (16,108)	\$ 851
36 Operating Income	\$ 2,024,305	\$ (11,713)	\$ 27,701	\$ 8,420	\$ 1,829	\$ (5,931)	\$ (21,216)	\$ 16,108	\$ (851)
37 Other Income (Expense)									
38 Interest Income	-								
39 Other Income	-								
40 Interest Expense	(388,078)								
41 Other Expense	-								
42									
43 Total Other Income (Expense)	\$ (388,078)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
44 Net Profit (Loss)	\$ 1,636,227	\$ (11,713)	\$ 27,701	\$ 8,420	\$ 1,829	\$ (5,931)	\$ (21,216)	\$ 16,108	\$ (851)
45									
46									
47									
48									

SUPPORTING SCHEDULES:  
 C-2  
 E-2

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rebuttal Schedule C-1  
Page 2.2  
Witness: Bourassa

Line No.		10 Interest Synch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rebuttal Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues											
2	Metered Water Revenues									\$ 10,965,545	\$ 1,668,790	\$ 12,634,335
3	Unmetered Water Revenues											
4	Other Water Revenues											
5										235,723		235,723
6	Operating Expenses									\$ 11,201,268	\$ 1,668,790	\$ 12,870,058
7	Salaries and Wages											
8	Purchased Water									\$ 1,069,839		\$ 1,069,839
9	Fuel For Power Production									2,615		2,615
10	Chemicals									903,527		903,527
11	Materials and Supplies											
12	Management Services - US Liberty Water									208,080		208,080
13	Management Services - Corporate									91,139		91,139
14	Management Services - Other									1,250,586		1,250,586
15	Outside Services - Accounting									781,023		781,023
16	Outside Services - Engineering											
17	Outside Services- Other											
18	Outside Services- Legal											
19	Water Testing											
20	Rents - Building									9,271		9,271
21	Rents - Equipment											
22	Transportation Expenses											
23	Insurance - General Liability									103,412		103,412
24	Insurance - Vehicle									19,865		19,865
25	Reg. Comm. Exp. - Rate Case									44,880		44,880
26	Reg. Comm. Exp. - Other											
27	Miscellaneous Expense									7,229		7,229
28	Bad Debt Expense									103,726		103,726
29	Depreciation and Amortization Expense									88,374		88,374
30	Property Taxes									20,825		20,825
31	Income Tax									20,572		20,572
32										65,800		65,800
33										141,060		141,060
34										21,140		21,140
35										2,627,581		2,627,581
36	Total Operating Expenses		25,084							531,421	28,505	557,926
37	Operating Income		(25,084)							1,053,673	628,831	1,682,504
38	Other Income (Expense)											
39	Interest Income											
40	Interest Expense											
41	Other Expense											
42		50,600										
43	Total Other Income (Expense)											
44	Net Profit (Loss)	\$ 50,600	\$ (25,084)							\$ 9,165,639	\$ 655,336	\$ 9,820,974
45		\$ 50,600	\$ (25,084)							\$ 2,035,629	\$ 1,013,454	\$ 3,049,083
46												
47												
48												

RECAP SCHEDULES:  
C-1, page 1

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustments to Revenues and Expenses

Exhibit  
Rebuttal Schedule C-2  
Page 1  
Witness: Bourassa

Line No.	1	2	3	4	5	6	
	<u>Adjustments to Revenues and Expenses</u>						
	<u>Depreciation</u>	<u>Property Taxes</u>	<u>Water Testing</u>	<u>Corporate Expense True-up</u>	<u>Corporate Allocation Expense</u>	<u>Interest on Customer Deposits</u>	<u>Subtotal</u>
4 Revenues							-
6 Expenses	11,713	(27,701)	(22,062)	(8,420)	(1,829)	5,931	(42,368)
8 Operating Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368
11 Interest Expense							-
13 Other Income / Expense							-
17 Net Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368
20	<u>Adjustments to Revenues and Expenses</u>						
21	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
22	<u>Bad Debt Expense</u>	<u>Misc. Expense</u>	<u>Amortization Regulatory Assets</u>	<u>Interest Synch.</u>	<u>Income Taxes</u>	<u>Intentionally Left Blank</u>	<u>Total</u>
25 Revenues							-
27 Expenses	21,216	(16,108)	851		25,084	-	(11,324)
29 Operating Income	(21,216)	16,108	(851)	-	(25,084)	-	11,324
32 Interest Expense	-			50,600			50,600
34 Other Income / Expense							-
38 Net Income	(21,216)	16,108	(851)	50,600	(25,084)	-	61,924

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Rebuttal Schedule C-2  
Page 2  
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4					
5	301	Organization Cost	21,100	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	1,450,278	0.00%	-
8	304	Structures and Improvements	25,036,371	3.33%	833,711
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	3,214,114	3.33%	107,030
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	225,130	5.00%	11,257
15	311	Electric Pumping Equipment	874,290	12.50%	109,286
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	3,425,394	3.33%	114,066
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	492,176	2.22%	10,926
20	330.1	Storage tanks	901,841	2.22%	20,021
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	40,256,187	2.00%	805,124
23	333	Services	5,350,963	3.33%	178,187
24	334	Meters	4,759,560	8.33%	396,471
25	335	Hydrants	3,302,148	2.00%	66,043
26	336	Backflow Prevention Devices	38,387	6.67%	2,560
27	339	Other Plant and Misc. Equip.	259,531	6.67%	17,311
28	340	Office Furniture and Fixtures	657,653	6.67%	43,865
29	340.1	Computers and Software	7,995	20.00%	1,599
30	341	Transportation Equipment	234,697	20.00%	46,939
31	342	Stores Equipment	37,143	4.00%	1,486
32	343	Tools and Work Equipment	47,434	5.00%	2,372
33	344	Laboratory Equipment	5,803	10.00%	580
34	345	Power Operated Equipment	18,003	5.00%	900
35	346	Communications Equipment	128,402	10.00%	12,840
36	347	Miscellaneous Equipment	-	10.00%	-
37	348	Other Tangible Plant	122,414	10.00%	12,241
38		TOTALS	\$ 90,867,015		\$ 2,794,816
39					
40					
41		Less: Amortization of Contributions			
42	307	Wells and Springs	\$ 499,000	3.3300%	\$ (16,617)
43	311	Electric Pumping Equipment	\$ 40,572	12.5000%	(5,071)
44	331	Trans. and Dist. Mains	\$ 5,893,218	2.0000%	(117,864)
45	333	Services	\$ 772,209	3.3300%	(25,715)
46	334	Meters	\$ 29,899	8.3300%	-
47	335	Hydrants	\$ 98,419	2.0000%	(1,968)
48			\$ 6,834,317		\$ (167,235)
49		Total Depreciation Expense			\$ 2,627,581
50		Adjusted Test Year Depreciation Expense			2,615,868
51					
52		Increase (decrease) in Depreciation Expense			11,713
53					
54		Adjustment to Revenues and/or Expenses			\$ 11,713
55					

SUPPORTING SCHEDULE

B-2, page 3

\*Fully Depreciated/Amortized

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Adjustment to Revenues and Expenses  
 Adjustment Number 2

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 11,201,268	\$ 11,201,268
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	22,402,536	22,402,536
4	Company Recommended Revenue	11,201,268	12,870,058
5	Subtotal (Line 4 + Line 5)	33,603,803	35,272,593
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	11,201,268	11,757,531
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	22,402,536	23,515,062
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	96,334	96,334
12	Full Cash Value (Line 9 + Line 10 - Line 11)	22,306,202	23,418,729
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	4,238,178	4,449,558
15	Composite Property Tax Rate - Obtained from ADOR	12.5389%	12.5389%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 531,421	\$ 557,926
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 531,421	
19	Adjusted Test Year Property Taxes	\$ 559,122	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (27,701)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 557,926
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 531,421
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 26,505
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 26,505
27	Increase in Revenue Requirement		\$ 1,668,790
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.58826%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Water Testing

Line

No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Recommended Water Testing Expense

\$ 44,880

Adjusted Test Year Water Testing Expense

66,942

Increase(decrease) Rate Case Expense

\$ (22,062)

Adjustment to Revenue and/or Expense

\$ (22,062)

Reference

RUCO Adjustment #6

Testimony

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Corporate Allocation True-Up

Line

No.

1

2

3

4 Corporate Allocation True-up

\$ (29,297)

5

6 % Allocation to Water

28.74%

7

8 Total Adjustment to Management Services - US Liberty Water

\$ (8,420)

9

10

11 Adjustment to Revenue and/or Expense

\$ (8,420)

12

13 SUPPORTING SCHEDULES

14 Staff Adjustment #2

15

16

17

18

19

20

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Corporate Allocation Expense Adjustment

Line

No.

1

2 Corporate Allocation Expense Adjustment

\$ (1,829)

3

4

5

6 Total Adjustment to Management Services - US Liberty Water

\$ (1,829)

7

8

9 Adjustment to Revenue and/or Expense

(1,829)

10

11 Reference

12 Testimony

13 Work Papers

14

15

16

17

18

19

20

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Interest on Customer Security Deposits

Line  
No.

1

2 Interest on Customer Deposits

\$ 5,931

3

4

5

6 Adjustment to Miscellaneous Expense

\$ 5,931

7

8

9 Adjustment to Revenue and/or Expense

5,931

10

11 Reference

12 Staff Adjustment #4

13 Testimony

14

15

16

17

18

19

20

21

22

23

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2001  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rebuttal Schedule C-2  
Page 8  
Witness: Bourassa

Bad Debt Expense

Line  
No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Allocated Bad Debt Expense - Water Division

\$ 21,216

Increase in Bad Debt Expense

\$ 21,216

Adjustment to Revenue and/or Expense

21,216

Reference

RUCO Adjustment #11

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2001  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Rebuttal Schedule C-2  
Page 9  
Witness: Bourassa

Miscellaneous Expense

Line  
No.

1

2

Miscellaneous Expense Adjustment

\$ (16,108)

3

4

5

Adjustment to Miscellaneous Expense

\$ (16,108)

6

7

8

9

Adjustment to Revenue and/or Expense

\$ (16,108)

10

11

Reference

12

RUCO Adjustment 15

13

14

15

16

17

18

19

20

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Rebuttal Schedule C-2  
Page 10  
Witness: Bourassa

Amortization of Regulatory Assets

Line

No.

1		
2	Adjusted TCE Plume Balance per B-2	\$ 91,067
3	Amortization rate	10.00%
4	Annual Amortization	\$ 9,107
5		
6	Test Year Amortization	8,256
7		
8	Adjustment to Regulatory Expense - Other	<u>\$ 851</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>851</u>
12		
13	<u>Reference</u>	
14	Testimony	
15		
16		
17		
18		
19		
20		

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 10**

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 11**  
**Witness: Bourassa**

**Interest Synchronization**

Line  
No.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30

Fair Value Rate Base	\$ 33,227,792	
Weighted Cost of Debt	1.02%	
Interest Expense		\$ 337,479
Test Year Interest Expense		<u>\$ 388,078</u>
Increase (decrease) in Interest Expense		(50,600)
Adjustment to Revenue and/or Expense		<u><u>\$ 50,600</u></u>

**Weighted Cost of Debt Computation**

	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	15.87%	6.40%	1.02%
Equity	<u>84.13%</u>	9.70%	<u>8.16%</u>
Total	100.00%		9.18%

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 11

Exhibit  
Rebuttal Schedule C-2  
Page 12  
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

	Test Year at Present Rates	Test Year at Proposed Rates
	\$ 1,053,673	\$ 1,682,504
	-	1,053,673
	<u>\$ 1,053,673</u>	<u>\$ 628,831</u>

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Gross Revenue Conversion Factor

Exhibit  
Rebuttal Schedule C-3  
Page 1  
Witness: Bourassa

Line		Percentage of Incremental Gross Revenues
No.	Description	
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	<u>0.980%</u>
4		
5		
6	Total Tax Percentage	39.270%
7		
8	Operating Income % = 100% - Tax Percentage	60.730%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6466
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012

Exhibit  
Rebuttal Schedule C-3  
Page 2  
Witness: Bourassa

## GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.2701%					
5	Subtotal (L3 - L4)	60.7299%					
6	Revenue Conversion Factor (L1 / L5)	1.646636					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	34.0000%					
16	Effective Federal Income Tax Rate (L14 * L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.2900%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%					
21	Property Tax Factor	1.5883%					
22	Effective Property Tax Factor (L20*L21)		0.9801%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.2701%			
24	Required Operating Income	\$ 3,049,083					
25	Adjusted Test Year Operating Income (Loss)	\$ 2,035,629					
26	Required Increase in Operating Income (L24 - L25)		\$ 1,013,454				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 1,682,504					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 1,053,673					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 628,831				
30	Recommended Revenue Requirement	\$ 12,870,058					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 557,926					
36	Property Tax on Test Year Revenue	\$ 531,421					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 26,505				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 1,668,790				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Test Year			Company Recommended		
	Total		Water	Total		Water
40	Revenue	\$ 11,201,268	\$ 11,201,268	\$ 12,870,058	\$ 12,870,058	\$ 12,870,058
41	Operating Expenses Excluding Income Taxes	8,111,965	8,111,965	8,138,470	8,138,470	8,138,470
42	Synchronized Interest (L47)	337,479	337,479	337,479	337,479	337,479
43	Arizona Taxable Income (L39 - L40 - L41)	\$ 2,751,824	\$ 2,751,824	\$ 4,394,110	\$ 4,394,110	\$ 4,394,110
44	Arizona State Effective Income Tax Rate (see work papers)	6.5000%	6.5000%	6.5000%	6.5000%	6.5000%
45	Arizona Income Tax (L42 * L43)	\$ 178,869	\$ 178,869	\$ 285,617	\$ 285,617	\$ 285,617
46	Federal Taxable Income (L42- L44)	\$ 2,572,955	\$ 2,572,955	\$ 4,108,493	\$ 4,108,493	\$ 4,108,493
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 760,905	\$ 760,905	\$ 1,282,988	\$ 1,282,988	\$ 1,282,988
52						
53	Total Federal Income Tax	\$ 874,805	\$ 874,805	\$ 1,396,888	\$ 1,396,888	\$ 1,396,888
54	Combined Federal and State Income Tax (L35 + L42)	\$ 1,053,673	\$ 1,053,673	\$ 1,682,505	\$ 1,682,504	\$ 1,682,504
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45]			34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]				0.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					34.0000%

Calculation of Interest Synchronization:

58	Rate Base	Water
59	Weighted Average Cost of Debt	\$ 33,227,792
60	Synchronized Interest (L59 X L60)	1.0157%
		\$ 337,479

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Exhibit  
Rebuttal Schedule H-1  
Page 1  
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	\$ 11,824	\$ 14,345	\$ 2,521	21.32%	0.11%	0.11%
2	3/4 Inch	Residential	3,047,017	3,415,174	368,157	12.08%	27.20%	26.54%
3	3/4 Inch	Residential - Low Income	7,293	7,757	464	6.36%	0.07%	0.06%
4	1 Inch	Residential	3,360,696	3,981,180	620,484	18.46%	30.00%	30.93%
5	1 Inch	Residential - Low Income	8,528	11,098	2,570	30.14%	0.08%	0.09%
6	1.5 Inch	Residential	44,871	52,309	7,438	16.58%	0.40%	0.41%
7	2 Inch	Residential	4,981	5,886	905	18.17%	0.04%	0.05%
8	4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
9								
10								
11		Subtotal	6,485,210	7,487,749	1,002,539	15.46%	57.90%	58.18%
12	5/8x3/4 Inch	Commercial	\$ 245	\$ 333	\$ 88	36.08%	0.00%	0.00%
13	3/4 Inch	Commercial	8,987	10,685	1,699	18.90%	0.08%	0.08%
14	1 Inch	Commercial	28,013	33,745	5,732	20.46%	0.25%	0.26%
15	1.5 Inch	Commercial	118,831	137,671	18,840	15.85%	1.06%	1.07%
16	2 Inch	Commercial	684,406	807,345	122,939	17.96%	6.11%	6.27%
17	4 Inch	Commercial	242,692	272,348	29,656	12.22%	2.17%	2.12%
18	8 Inch	Commercial	10,786	14,027	3,241	30.05%	0.10%	0.11%
19	10 Inch	Commercial	36,262	42,203	5,941	16.38%	0.32%	0.33%
20								
21		Subtotal	1,130,221	1,318,357	188,136	16.65%	10.09%	10.24%
22								
23								
24	5/8x3/4 Inch	Irrigation	\$ 906	\$ 1,071	\$ 165	18.23%	0.01%	0.01%
25	3/4 Inch	Irrigation	58,536	67,354	8,819	15.07%	0.52%	0.52%
26	1 Inch	Irrigation	292,670	337,167	44,496	15.20%	2.61%	2.62%
27	1.5 Inch	Irrigation	342,197	388,790	46,594	13.62%	3.05%	3.02%
28	2 Inch	Irrigation	1,777,002	2,008,098	231,096	13.00%	15.86%	15.60%
29	4 Inch	Irrigation	140,026	159,349	19,323	13.80%	1.25%	1.24%
30								
31		Subtotal	2,611,336	2,961,830	350,493	13.42%	23.31%	23.01%
32								
33	1 Inch	MF	1,558	2,264	706	45.31%	0.01%	0.02%
34	1.5 Inch	MF	47,101	54,084	6,984	14.83%	0.42%	0.42%
35	2 Inch	MF	320,997	376,103	55,106	17.16%	2.87%	2.92%
36	4 Inch	MF	47,487	54,277	6,790	14.30%	0.42%	0.42%
37		Subtotal	417,143	486,729	69,586	16.68%	3.72%	3.78%
38								
39	5/8x3/4 Inch	Fire	\$ 28,594	\$ 38,847	\$ 10,253	35.86%	0.26%	0.30%
40	3/4 Inch	Fire	2,879	3,910	1,031	35.81%	0.03%	0.03%
41	1 Inch	Fire	275	374	99	35.95%	0.00%	0.00%
42		Hydrant	68,030	75,439	7,409	10.89%	0.61%	0.59%
43		Sweeper	700	776	76	10.89%	0.01%	0.01%
44	8 Inch	Goodyear	128,952	142,421	13,469	10.44%	1.15%	1.11%
45	4 Inch	VUI	3,060	4,164	1,104	36.08%	0.03%	0.03%
46		Total Revenues Before Annualization	10,876,400	12,520,596	1,644,196	15.11%	97.10%	97.28%
47								



Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Exhibit  
 Rebuttal Schedule H-1  
 Page 3  
 Witness: Hourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 10,876,400	\$ 12,520,596	\$ 1,644,195	15.12%	97.10%	97.28%
4	(58,703)	(58,703)	-	0.00%	-0.52%	-0.46%
5	147,042	173,966	26,923	18.31%	1.31%	1.35%
6	\$ 10,964,740	\$ 12,635,858	\$ 1,671,118	15.24%	97.89%	98.18%
7						
8	\$ 235,723	\$ 235,723	(0)	0.00%	2.10%	1.83%
9	805	(1,523)	(2,328)	-289.19%	0.01%	-0.01%
10	\$ 11,201,268	\$ 12,870,058	\$ 1,668,790	14.90%	100.00%	100.00%
11						

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Customer Summary

Exhibit  
Rebuttal Schedule H-2  
Page 1  
Witness: Bourassa

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2012	Average Bill		Proposed Increase		
			Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch Residential	58	4,277 \$	15.64 \$	19.37	3.73	23.86%
2	3/4 Inch Residential	9,320	8,827	24.33	28.24	3.91	16.08%
3	3/4 Inch Residential - Low Income	29	7,138	19.47	21.21	1.74	8.93%
4	1 Inch Residential	5,835	13,707	44.58	53.18	8.60	19.29%
5	1 Inch Residential - Low Income	24	8,161	28.89	37.68	8.79	30.44%
6	1.5 Inch Residential	26	40,907	130.15	150.45	20.30	15.60%
7	2 Inch Residential	2	53,542	183.86	215.45	31.58	17.18%
8	4 Inch Residential	-	-	255.00	347.00	92.00	36.08%
9	Subtotal	15,293					
10							
11	5/8x3/4 Inch Commercial	2	- \$	10.20 \$	13.88	3.68	36.08%
12	3/4 Inch Commercial	31	6,052	21.76	25.68	3.92	18.03%
13	1 Inch Commercial	44	12,065	48.54	58.23	9.68	19.95%
14	1.5 Inch Commercial	54	51,926	163.53	187.47	23.94	14.64%
15	2 Inch Commercial	253	57,587	191.59	223.33	31.74	16.57%
16	4 Inch Commercial	7	926,238	2,859.90	3,205.36	345.46	12.08%
17	8 Inch Commercial	1	30,000	898.80	1,168.90	270.10	30.05%
18	10 Inch Commercial	1	895,000	2,882.45	3,341.45	459.00	15.92%
19	Subtotal	393					
20							
21	5/8x3/4 Inch Irrigation	3	6,528 \$	22.67 \$	26.61	3.94	17.39%
22	3/4 Inch Irrigation	119	12,057	36.65	41.70	5.05	13.77%
23	1 Inch Irrigation	232	30,391	95.18	108.61	13.43	14.11%
24	1.5 Inch Irrigation	98	90,421	280.18	316.82	36.64	13.08%
25	2 Inch Irrigation	249	187,244	581.75	655.58	73.83	12.69%
26	4 Inch Irrigation	8	466,516	1,466.94	1,660.70	193.75	13.21%
27	Subtotal	708					
28							
29	1 Inch MF	5	2,717	25.67	37.42	11.75	45.78%
30	1.5 Inch MF	16	71,146	221.77	252.05	30.28	13.65%
31	2 Inch MF	112	64,098	208.62	241.81	33.19	15.91%
32	4 Inch MF	3	393,611	1,246.04	1,415.73	169.69	13.62%
33	Subtotal	136					
34							
35	5/8x3/4 Inch Fire	232	35 \$	10.27 \$	13.95	3.68	35.86%
36	3/4 Inch Fire	23	43	10.28	13.96	3.68	35.81%
37	1 Inch Fire	1	-	22.95	31.20	8.25	35.95%
38	Hydrant	13	148,689 \$	450.53 \$	499.59	49.07	10.89%
39	Goodyear	2	3,248,000	5,373.00	5,934.20	561.20	10.44%
40	4 Inch VUI	1	0	255.00	347.00	92	36.08%
41	Total	16,802					
42							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Customer Summary

Exhibit  
Rebuttal Schedule H-2  
Page 2  
Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	58	4,000	\$ 15.11	\$ 18.83	3.72	24.62%
2	3/4 Inch Residential	9,320	7,000	20.84	24.68	3.84	18.43%
3	3/4 Inch Residential - Low Income	29	6,000	17.62	19.32	1.70	9.65%
4	1 Inch Residential	5,835	10,000	37.50	45.95	8.45	22.53%
5	1 Inch Residential - Low Income	24	8,000	28.63	37.37	8.74	30.54%
6	1.5 Inch Residential	26	34,000	115.94	135.70	19.76	17.04%
7	2 Inch Residential	2	28,500	136.04	166.62	30.58	22.48%
8	4 Inch Residential	-	-	255.00	347.00	92.00	36.08%
9	Subtotal	15,293					
10	Commercial	2	-	\$ 10.20	\$ 13.88	3.68	36.08%
11	5/8 Inch Commercial	31	2,000	14.02	17.78	3.76	26.82%
12	3/4 Inch Commercial	44	4,000	33.14	42.50	9.36	28.24%
13	1 Inch Commercial	54	24,000	96.84	116.20	19.36	19.99%
14	1.5 Inch Commercial	253	20,000	119.80	150.04	30.24	25.24%
15	2 Inch Commercial	7	507,500	1,591.13	1,798.40	207.28	13.03%
16	4 Inch Commercial	1	30,000	898.80	1,168.90	270.10	30.05%
17	8 Inch Commercial	1	947,000	2,989.61	3,452.72	463.11	15.49%
18	10 Inch Commercial	393					
19	Subtotal						
20	Irrigation	3	4,000	\$ 17.84	\$ 21.68	3.84	21.52%
21	5/8 Inch Irrigation	119	5,000	19.75	23.63	3.88	19.65%
22	3/4 Inch Irrigation	232	12,000	48.42	58.10	9.68	19.99%
23	1 Inch Irrigation	98	47,000	148.61	170.92	22.31	15.01%
24	1.5 Inch Irrigation	249	115,186	363.41	413.46	50.05	13.77%
25	2 Inch Irrigation	8	163,000	566.33	664.85	98.52	17.40%
26	4 Inch Irrigation	708					
27	Subtotal						
28	MF	5	2,000	24.95	36.70	11.75	47.09%
29	1 Inch MF	16	12,000	73.92	92.80	18.88	25.54%
30	1.5 Inch MF	112	33,000	144.63	175.39	30.76	21.27%
31	2 Inch MF	3	167,000	573.97	672.65	98.68	17.19%
32	4 Inch MF	136					
33	Subtotal						
34	Fire	232	-	\$ 10.20	\$ 13.88	3.68	36.08%
35	5/8 Inch Fire	23	-	\$ 10.20	\$ 13.88	3.68	36.08%
36	3/4 Inch Fire	1	-	\$ 22.95	\$ 31.20	8.25	35.95%
37	1 Inch Fire	13	21,000	64	71	6.93	10.89%
38	Hydrant	2	-	501.00	575.00	74.00	14.77%
39	Goodyear	1	0	255.00	347.00	92	36.08%
40	VUI	16,802					
41	Total						
42							
43							
44							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Present and Proposed Rates

Exhibit  
 Rebuttal Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 10.20	\$ 13.88	\$ 3.68	36.08%
2	3/4 Inch - Residential	10.20	13.88	3.68	36.08%
3	1 Inch - Residential	22.95	31.20	8.25	35.95%
4	1 1/2 Inch	25.50	34.70	9.20	36.08%
5	2 Inch	51.00	69.40	18.40	36.08%
6	3 Inch	81.60	111.04	29.44	36.08%
7	4 Inch	163.20	222.08	58.88	36.08%
8	6 Inch	255.00	347.00	92.00	36.08%
9	8 Inch - Bulk Water Only	510.00	694.00	184.00	36.08%
10	10 Inch	841.50	1,110.40	268.90	31.95%
11	12 Inch	1,173.00	1,586.20	423.20	36.08%
12		2,193.00	2,984.20	791.20	36.08%
13	Construction - Hydrants	\$ -	\$ -		
14					
15					
16	Gallons in Minimum (All Meter Sizes and Classes)				
17					
18					
19	Commodity Rates				
20	(Residential, Commercial, Industrial)				
21					
22	5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons	\$ 1.00		
23		3,001 gallons to 9,000 gallons	\$ 1.91		
24		over 9,000 gallons	\$ 3.03		
25					
26	5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons	\$ 1.00		
27		3,001 gallons to 11,000 gallons	\$ 1.95		
28		11,001 gallons to 20,000 gallons	\$ 2.95		
29		over 20,000 gallons	\$ 3.36		
30					
31	5/8x3/4 Inch and 3/4 Inch Meter - Com., Irr.	0 gallons to 9,000 gallons	\$ 1.91		
32		over 9,000 gallons	\$ 3.03		
33					
34	1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons	\$ 1.00		
35		5,001 gallons to 20,000 gallons	\$ 1.91		
36		over 20,000 gallons	\$ 3.03		
37					
38	1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons	\$ 1.00		
39		5,001 gallons to 20,000 gallons	\$ 1.95		
40		20,001 gallons to 30,000 gallons	\$ 2.95		
41		over 30,000 gallons	\$ 3.36		
42					
43	NT = No Tariff				

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Present and Proposed Rates

Exhibit  
Rebuttal Schedule H-3  
Page 2  
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4				
5	1 Inch Meter - All Classes, except Residential	0 gallons to 20,000 gallons	\$ 1.91	\$ 1.95
6		over 20,000 gallons	\$ 3.03	\$ 3.36
7				
8	1.5 Inch Meter - All Classes	0 gallons to 40,000 gallons	\$ 1.91	\$ 1.95
9		over 40,000 gallons	\$ 3.03	\$ 3.36
10				
11	2 Inch Meter - All Classes	0 gallons to 60,000 gallons	\$ 1.91	\$ 1.95
12		over 60,000 gallons	\$ 3.03	\$ 3.36
13				
14	3 Inch Meter - All Classes	0 gallons to 120,000 gallons	\$ 1.91	\$ 1.95
15		over 120,000 gallons	\$ 3.03	\$ 3.36
16				
17	4 Inch Meter - All Classes	0 gallons to 180,000 gallons	\$ 1.91	\$ 1.95
18		over 180,000 gallons	\$ 3.03	\$ 3.36
19				
20	6 Inch Meter - All Classes	0 gallons to 360,000 gallons	\$ 1.91	\$ 1.95
21		over 360,000 gallons	\$ 3.03	\$ 3.36
22				
23	8 Inch Meter - Bulk resale only	All gallons	\$ 1.50	\$ 1.65
24				
25	8 Inch Meter - All Classes	0 gallons to 650,000 gallons	\$ 1.91	\$ 1.95
26		over 650,000 gallons	\$ 3.03	\$ 3.36
27				
28	10 Inch Meter - All Classes	0 gallons to 940,000 gallons	\$ 1.91	\$ 1.95
29		over 940,000 gallons	\$ 3.03	\$ 3.36
30				
31	12 Inch Meter - All Classes	0 gallons to 1,248,000 gallons	\$ 1.91	\$ 1.95
32		over 1,248,000 gallons	\$ 3.03	\$ 3.36
33				
34				
35				
36				
37				
38	<u>Construction-Hydrants</u>	All gallons	\$ 3.03	\$ 3.36
39				
40				
41				
42				
43				

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Changes in Representative Rate Schedules**  
**Test Year Ended December 31, 2012**

Exhibit  
Rebuttal Schedule H-3  
Page 3  
Witness: Bourassa

Line  
No.

1			
2			
3	<u>Other Service Charges</u>	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>
4	Establishment (Regular Hours) per Rule R14-2-403D (a)	\$ 20.00	\$ 20.00
5	Establishment (After Hours) per Rule R14-2-403D (a)	\$ 40.00	NT
6	Re-Establishment of Service per Rule R14-2-403D (a)	(b)	(b)
7	Reconnection (Regular Hours) per Rule R14-2-403D (a)	\$ 50.00	\$ 20.00
8	Reconnection (After Hours) per Rule R14-2-403D (a)	\$ 65.00	NT
9	Meter Test (if correct) per Rule R14-2-408F (c)	\$ 25.00	\$ 25.00
10	Meter Reread per Rule R14-2-408C (if correct)	\$ 5.00	\$ 5.00
11	Fire Hydrant Meter Relocation	NT	\$ 50.00
12	Fire Hydrant Meter Repair	NT	Cost
13	NSF Check per Rule R14-2-409F (a)	\$ 20.00	\$ 25.00
14	Deferred Payment, Per Month	1.50%	1.50%
15	Late Charge	(c)	(c)
16	Service Calls - Per Hour/After Hours(d)	\$ 40.00	\$ 40.00
17	Deposit Requirements	(f)	(f)
18	Deposit Interest	3.50%	6.00%
19	Meter and Service lines	see H-3, page 4	
20	Main Extension Tariff	at Cost	at Cost
21			
22			
23			
24	(a) Charges applicable to water service.		
25	(b) Minimum charge times number of full months off the system. per Rule R14-2-403(D).		
26	(c) Greater of \$5.00 or 1.5% of unpaid balance.		
27	(d) After hours service charge is appropriate when it is at the customer's request or convenience. It compensates the utility		
28	for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility		
29	service provided after hours at the customer's request or for the customer's convenience.		
30	(e) Per ACC Rules R14-2-403(B) <u>Residential</u> - two times the average bill.		
31	<u>Commercial</u> - two and one-half times the average bill.		
32			
33			
34	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
35	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
36	TAX. PER COMMISSION RULE 14-2-409D(5).		
37			
38			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Meter and Service Line Charges**

Exhibit  
Rebuttal Schedule H-3  
Page 4  
Witness: Bourassa

Line  
No.

1							
2	<b><u>Refundable Meter and Service Line Charges</u></b>						
3							
4			Present			Proposed	
5		Present	Meter		Proposed	Meter	
6		Service	Install-	Total	Service	Install-	Total
7		Line	ation	Present	Line	ation	Proposed
8		<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
9	5/8 x 3/4 Inch	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
10	3/4 Inch	385.00	215.00	600.00	385.00	215.00	600.00
11	1 Inch	435.00	255.00	690.00	435.00	255.00	690.00
12	1 1/2 Inch	470.00	465.00	935.00	470.00	465.00	935.00
13	2 Inch / Turbine	630.00	965.00	1,595.00	630.00	965.00	1,595.00
14	2 Inch / Compound	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
15	3 Inch / Turbine	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
16	3 Inch / Compound	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
17	4 Inch / Turbine	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
18	4 Inch / Compound	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
19	6 Inch / Turbine	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
20	6 Inch / Compound	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
21	8 Inch & Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
22							
23							
24							
25	N/T = No Tariff						
26							
27							
28	<b><u>Hydrant Meter Deposit*</u></b>			Present	Proposed		
29				<u>Charge</u>		<u>Charge</u>	
30	5/8 x 3/4 Inch		\$	135.00	\$	135.00	
31	3/4 Inch			215.00		215.00	
32	1 Inch			255.00		255.00	
33	1 1/2 Inch			465.00		465.00	
34	2 Inch / Turbine			965.00		965.00	
35	2 Inch / Compound			1,690.00		1,690.00	
36	3 Inch / Turbine			1,470.00		1,470.00	
37	3 Inch / Compound			2,265.00		2,265.00	
38	4 Inch / Turbine			2,350.00		2,350.00	
39	4 Inch / Compound			3,245.00		3,245.00	
40	6 Inch / Turbine			4,545.00		4,545.00	
41	6 Inch / Compound			6,280.00		6,280.00	
42	8 Inch & Larger			At Cost		At Cost	
43							

44 \* Shall have a non-interest bearing deposit of the amount indicated , refundable in its entirety upon return of  
45 the meter in good condition and payment of the final bill.

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Hook-Up Fees

Exhibit  
Rebuttal Schedule H-3  
Page 5  
Witness: Bourassa

Line

No.

1

2 **Off-site Facilities Hook-up Fee**

3

4

5

6 5/8 x 3/4 Inch

	Present	Proposed
	<u>Charge</u>	<u>Charge</u>
\$	1,800	\$ 1,800

7 3/4 Inch

2,700 2,700

8 1 Inch

4,500 4,500

9 1 1/2 Inch

9,000 9,000

10 2 Inch

14,400 14,400

11 3 Inch

28,800 28,800

12 4 Inch

45,000 45,000

13 6 Inch or Larger

90,000 NT

14 6 Inch

NT 90,000

15 8 Inch

NT 144,000

16 10 Inch

NT 310,500

17 12 Inch

NT 967,500

18

19

20

21 NT = No Tariff

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

**LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY  
UTILITIES**

**THOMAS BOURASSA  
REBUTTAL TESTIMONY**

**OCTOBER 23, 2013**

**WASTEWATER DIVISION**

**REBUTTAL SCHEDULES**

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Rebuttal Schedule A-1  
Page 1  
Witness: Bourassa

Line  
No.

1	Fair Value Rate Base			\$	24,264,817	
2						
3	Adjusted Operating Income				1,908,943	
4						
5	Current Rate of Return				7.87%	
6						
7	Required Operating Income			\$	2,226,614	
8						
9	Required Rate of Return on Fair Value Rate Base				9.18%	
10						
11	Operating Income Deficiency			\$	317,671	
12						
13	Gross Revenue Conversion Factor				1.6496	
14						
15	Increase in Gross Revenue					
16	Requirement			\$	524,028	
17						
18	Adjusted Test Year Revenues			\$	10,362,796	
19	Increase in Gross Revenue Revenue Requirement			\$	524,028	
20	Proposed Revenue Requirement			\$	10,886,824	
21	% Increase				5.06%	
22						
23	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>	
24	<b><u>Classification</u></b>	<b><u>Rates</u></b>	<b><u>Rates</u></b>	<b><u>Increase</u></b>	<b><u>Increase</u></b>	
25	Residential	\$ 7,214,632	\$ 7,601,361	\$ 386,729	5.36%	
26	Residential - Low Income	23,862	25,141	1,279	5.36%	
27	Residential HOA 145	67,843	71,479	3,637	5.36%	
28	Residential HOA 172	80,475	84,789	4,314	5.36%	
29	Residential HOA 560	262,013	276,058	14,045	5.36%	
30	Multi-Unit 3	10,423	10,981	559	5.36%	
31	Multi-Unit 5	4,524	4,766	243	5.36%	
32	Multi-Unit 6	6,948	7,321	372	5.36%	
33	Multi-Unit 7	109,439	115,305	5,867	5.36%	
34	Multi-Unit 8	6,948	7,321	372	5.36%	
35	Multi-Unit 13	62,102	65,431	3,329	5.36%	
36	Multi-Unit 15	267,082	281,399	14,317	5.36%	
37	Multi-Unit 16	6,948	7,321	372	5.36%	
38	Multi-Unit 17	7,383	7,779	396	5.36%	
39	Multi-Unit 22	9,554	10,066	512	5.36%	
40	Multi-Unit 43	18,674	19,675	1,001	5.36%	
41	Multi-Unit 78	33,874	35,690	1,816	5.36%	
42	Multi-Unit 84	36,480	38,435	1,956	5.36%	
43	Multi-Unit 123	106,833	112,560	5,727	5.36%	
44	Multi-Unit 282	122,467	129,032	6,565	5.36%	
45	Small Commercial	75,094	79,115	4,021	5.35%	
46	Regular Domestic	438,612	462,069	23,456	5.35%	
47	Restaurant, Motels, Grocery, Dry Cleaning	375,664	395,758	20,094	5.35%	
48	Wigwam Resort - Per Room	143,312	150,995	7,682	5.36%	
49	Wigwam Resort - Main	17,200	18,120	920	5.35%	
50	Elementary Schools	70,174	73,928	3,754	5.35%	
51	Middle and High Schools	55,039	57,984	2,945	5.35%	
52	Community College	21,327	22,469	1,141	5.35%	
53	Effluent Sales	72,967	72,967	-	0.00%	
54	Revenue Annualization	126,683	133,650	6,967	5.50%	
55						
56	<b>Subtotal</b>	<b>\$ 9,854,576</b>	<b>\$ 10,378,964</b>	<b>\$ 524,387</b>	<b>5.32%</b>	
57						
58	Other Water Revenues	508,220	508,220	-	0.00%	
59	Reconciling Amount	-	(359)	(359)	0.00%	
60	Rounding			-	0.00%	
61	<b>Total of Water Revenues</b>	<b>\$ 10,362,796</b>	<b>\$ 10,886,825</b>	<b>\$ 524,028</b>	<b>5.06%</b>	

62  
63  
64 **SUPPORTING SCHEDULES:**  
65 B-1  
66 C-1  
67 C-3  
68 H-1

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Summary of Rate Base

Exhibit  
Rebuttal Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 74,595,805	\$ 74,595,805
3	Less: Accumulated Depreciation	13,567,321	13,567,321
4			
5	Net Utility Plant in Service	\$ 61,028,484	\$ 61,028,484
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	11,645,290	11,645,290
9			
10	Contributions in Aid of Construction	28,376,915	28,376,915
11			
12	Accumulated Amortization of CIAC	(4,153,301)	(4,153,301)
13			
14	Customer Meter Deposits	95,892	95,892
15	Customer Security Deposits	163,774	163,774
16	Accumulated Deferred Income Tax	635,096	635,096
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 24,264,817</u>	<u>\$ 24,264,817</u>
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Original Cost Rate Base Proforma Adjustments**

Exhibit  
Rebuttal Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 74,024,532	571,273	\$ 74,595,805
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	13,244,186	323,134	13,567,321
7				
8				
9	Net Utility Plant			
10	in Service	\$ 60,780,346		\$ 61,028,484
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	11,645,290	-	11,645,290
15				
16	Contributions in Aid of			
17	Construction - Gross	28,470,485	(93,570)	28,376,915
18				
19	Accumulated Amortization of CIAC	(4,446,775)	293,475	(4,153,301)
20				
21	Customer Meter Deposits	95,892		95,892
22	Customer Security Deposits	155,440	8,334	163,774
23	Accumulated Deferred Income Tax	982,318	(347,221)	635,096
24				-
25				-
26				
27	<b>Plus:</b>			
28	Unamortized Finance			
29	Charges	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	<b>Total</b>	<b>\$ 23,877,697</b>		<b>\$ 24,264,817</b>

46 SUPPORTING SCHEDULES:

47 B-2, pages 2

48 E-1

49

50

51

RECAP SCHEDULES:

B-1

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Rebuttal Schedule B-2  
Page 2  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	1	Plant-in-Service	2	Proforma Adjustments		Customer Deposits	5	Intentionally Left Blank	6	Rebuttal Adjusted at end of Test Year
						3	4					
	Gross Utility											
1	Plant in Service	\$ 74,024,532	571,273									\$ 74,595,805
2												
3												
4	Less:											
5	Accumulated											
6	Depreciation	13,244,186		323,134								13,567,321
7												
8												
9	Net Utility Plant											
10	in Service	\$ 60,780,346	571,273	(323,134)								\$ 61,028,484
11												
12	Less:											
13	Advances in Aid of											
14	Construction	11,645,290										11,645,290
15												
16	Contributions in Aid of											
17	Construction (CIAC)	28,470,485				(93,570)						28,376,915
18												(4,153,301)
19	Accumulated Amort of CIAC	(4,446,775)				293,475						95,892
20												163,774
21	Customer Meter Deposits	95,892										635,096
22	Customer Security Deposits	155,440							8,334			
23	Accumulated Deferred Income Taxes	982,318					(347,221)					
24												
25												
26	Plus:											
27	Unamortized Finance											
28	Charges											
29	Prepayments											
30	Materials and Supplies											
31	Allowance for Cash Working Capital											
32												
33	Total	\$ 23,877,697	571,273	(323,134)		(199,905)	347,221	(8,334)				\$ 24,264,817
34												
35												
36												

SUPPORTING SCHEDULES:  
B-2, pages 3-8  
E-1

RECAP SCHEDULES:  
B-1

Exhibit  
Rebuttal Schedule B-2  
Page 3  
Witness: Bourassa

Original Cost Rate Base Proforma Adjustments

Original Cost Rate Base Proforma Adjustments

### Adjustment Number 1

## Line

[illegible]

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - A

Exhibit  
Rebuttal Schedule B-2  
Page 3.1  
Witness: Bourassa

Line

No.

1 Post Test Year Plant True-up

2

3

4

Acct.

5

No. Description

Adjustment

6

380 Treatment & Disposal Equipment remove amount proposed in Direct

\$ (1,000,000)

7

8

354 Structures & Improvements True-up estimate based on actual costs to date

\$ 1,200,000

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Net Adjustment

\$ 200,000

41

42

43

SUPPORTING SCHEDULE

44

Testimony

45

Work papers

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rebuttal Schedule B-2  
Page 3.2  
Witness: Bourassa

Line

No.

1 Post Test Year Plant Retirements

2

3

4

Acct.

5

No. Description

Adjustment

6

380 Treatment & Disposal Equipment remove amount proposed in Direct

\$ 300,000

7

8

380 Treatment & Disposal Equipment true-up to actual cost

-

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

Net Adjustment

\$ 300,000

42

43

SUPPORTING SCHEDULE

44

Testimony

45

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - C

Exhibit  
Rebuttal Schedule B-2  
Page 3.3  
Witness: Bourassa

Line

No.

1 Accrual True-up

2

3

4 Acct.

5 No. Description

6 354 Structures & Improvements

7 396 Communication Equip

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40 Net Adjustment

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #3

45

Cost

\$ 199,000

(3,555)

\$ 195,445

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**

Test Year Ended December 31, 2012

Original Cost Rate Base Proforma Adjustments

Adjustment Number 1 - D

Exhibit

Rebuttal Schedule B-2

Page 3.4

Witness: Bourassa

Line

No.

1 Plant Reclassification

2

3

4

Acct.

5

No. Description

Cost

6

354 Structures & Improvements

\$ (525,110)

7

361 Collection Sewers Gravity

41,564

8

364 Flow Measuring Devices

36,618

9

371 Pumping Equipment

61,670

10

380 Treatment & Disposal Equipment

476,749

11

389 Other Sewer Plant & Equipment

(43,005)

12

393 Tools, Shop And Garage Equip

(15,681)

13

394 Laboratory Equip

836

14

395 Power Operated Equipment

(21,485)

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Net Adjustment

\$ 12,156

41

42

43

SUPPORTING SCHEDULE

44

Staff Table 6 - Reclassification

45

Testimony

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - E

Exhibit  
Rebuttal Schedule B-2  
Page 3.5  
Witness: Bourassa

Line

No.

1 Plant Not Used and Useful

2

3

4 Acct.

5 No. Description

6 353 Land

7 354 Structures & Improvements

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40 Net Adjustment

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #6

45

Cost

\$ (11,217)

(113,329)

\$ (124,546)

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - F

Exhibit  
Rebuttal Schedule B-2  
Page 3.6  
Witness: Bourassa

Line

No.

Duplicate Invoices

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45

Acct.

No. Description

Cost

353 Land  
355 Power Generation  
389 Other Sewer Plant & Equipment

\$ (3,409)  
(400)  
(864)

Net Adjustment

\$ (4,673)

SUPPORTING SCHEDULE

Staff Adjustment #7

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - G

Exhibit  
Rebuttal Schedule B-2  
Page 3.7  
Witness: Bourassa

Line

No.

Retirements

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42

43

44

45

Acct.

No.

Description

Year

Adjustment

341

Transportation Equipment

2008

\$ (7,110)

\$ (7,110)

Reclassifications

Acct.

No.

Description

Year

Year

Reflected on B-2 Plant<sup>1</sup>

Adjustment

341

Transportation Equipment

2008

see below

\$ (6,193)

389

Other Sewer Plant & Equipment

2008

2008

6,193

\$ -

Total Adjustment

\$ (7,110)

SUPPORTING SCHEDULE

Work papers - Supplemental Response to RUCO 6.01

<sup>1</sup> Post last test year end date

Exhibit  
Rebuttal Schedule B-2  
Page 3.8  
Witness: Bourassa

**SUPPORTING SCHEDULE**

**B-2, pages 3.1 through 3.7**

**B-2, pages 3.8 through 3.12**

NARUC Account		Description	Allowed Deprec. Rate	Per Decision		2008							Accum. Deprec.				
Line No.	No.			Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		Plant Balance			
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	1,783,426	-	-	-	-	-	-	-	-	-	-	1,783,426	-	-
4	354	Structures & Improvements	3.33%	18,720,541	1,470,581	(233,680)	(20,663)	(254,342)	-	-	-	-	-	-	18,486,199	1,625,370	-
5	355	Power Generation	5.00%	548,674	107,121	-	-	-	-	-	-	-	-	-	548,674	113,980	-
6	360	Collection Sewer Forced	2.00%	1,161,105	(207,785)	-	-	-	-	-	-	-	-	-	1,161,105	(201,979)	-
7	361	Collection Sewers Gravity	2.00%	23,094,661	2,850,025	681,674	(7,514)	-	-	-	-	-	-	-	23,768,822	2,967,184	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	47,019	19,320	-	-	-	-	-	-	-	-	-	47,019	20,495	-
11	366	Reuse Services	2.00%	3,789,468	482,984	160,400	(59)	160,341	-	-	-	-	-	-	3,949,808	502,332	-
12	367	Reuse Meters And Installation	8.33%	52,331	7,610	1,535	-	1,535	-	-	-	-	-	-	53,866	8,716	-
13	370	Receiving Wells	3.33%	860,393	175,322	-	-	-	-	-	-	-	-	-	860,393	182,464	-
14	371	Pumping Equipment	12.50%	1,759,801	959,964	7,986	-	7,986	-	-	-	-	-	-	1,767,498	1,015,078	-
15	374	Reuse Distribution Reservoirs	2.50%	62,825	1,959	-	-	-	-	-	-	-	-	-	62,825	2,352	-
16	375	Reuse Trans. and Dist. System	2.50%	414,315	3,984	-	-	-	-	-	-	-	-	-	414,315	6,474	-
17	380	Treatment & Disposal Equipment	5.00%	5,431,228	1,365,486	(36,423)	-	(36,423)	-	-	-	-	-	-	5,394,805	1,433,159	-
18	381	Plant Sewers	5.00%	47,788	6,531	-	-	-	-	-	-	-	-	-	47,788	7,128	-
19	382	Outfall Sewer Lines	3.33%	343,681	70,253	-	-	-	-	-	-	-	-	-	343,681	73,114	-
20	389	Other Sewer Plant & Equipment	6.67%	605,548	41,241	(11,446)	6,193	(5,253)	-	-	-	-	-	-	600,295	51,284	-
21	390	Office Furniture & Equipment	6.67%	198,772	58,516	12,496	-	12,496	-	-	-	-	-	-	211,268	61,935	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	26,078	10,505	3,368	(6,193)	(2,825)	7,110	7,110	-	-	-	-	16,143	4,450	-
24	392	Stores Equipment	4.00%	8,968	2,156	-	-	-	-	-	-	-	-	-	8,968	2,246	-
25	393	Tools, Shop And Garage Equip	5.00%	56,167	8,241	4,879	-	4,879	-	-	-	-	-	-	61,046	8,973	-
26	394	Laboratory Equip	10.00%	173,948	60,590	-	-	-	-	-	-	-	-	-	173,948	64,939	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	418,996	195,163	-	-	-	-	-	-	-	-	-	418,996	205,638	-
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-	-	-	-	-
35		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		59,605,733	7,689,676	590,500	(28,236)	562,264	7,110	7,110	-	472,796	60,160,887	8,155,382			

Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rebuttal Schedule B-2  
Page 3.9  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009					Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	
1	351	Organization	0.00%	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-
3	353	Land	0.00%	68,263	(11,217)	-	57,046	-	-
4	354	Structures & Improvements	3.33%	643,865	(6,430)	(465,350)	172,085	-	2,243,160
5	355	Power Generation	5.00%	7,457	(400)	-	7,058	-	141,560
6	360	Collection Sewer Forced	2.00%	1,200	-	-	1,200	-	(178,745)
7	361	Collection Sewers Gravity	2.00%	3,132,384	(18,782)	41,564	3,155,166	-	3,474,112
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	36,618	36,618	-	27,028
11	366	Reuse Services	2.00%	107,733	-	-	107,733	-	582,405
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	13,203
13	370	Receiving Wells	3.33%	-	-	-	-	-	211,136
14	371	Pumping Equipment	12.50%	59,866	-	5,048	64,914	-	1,240,074
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	3,822
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	16,832
17	380	Treatment & Disposal Equipment	5.00%	38,942	-	424,288	463,230	-	1,714,480
18	381	Plant Sewers	5.00%	-	-	-	-	-	8,518
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	84,558
20	389	Other Sewer Plant & Equipment	6.67%	78,761	-	(43,005)	35,756	-	92,526
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	76,026
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	7,678
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	2,605
26	394	Laboratory Equip	10.00%	-	-	836	836	-	12,026
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	82,375
28	396	Communication Equip	10.00%	-	-	-	-	-	-
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	247,538
29				-	-	-	-	-	-
30				-	-	-	-	-	-
31				-	-	-	-	-	-
32				-	-	-	-	-	-
33				-	-	-	-	-	-
34				-	-	-	-	-	-
35				-	-	-	-	-	-
36		TOTALS		4,139,501	(36,809)	0	4,101,693	-	10,104,048
								1,948,686	84,262,579

Litchfield Park Service Company - WW Division  
 dba Liberty Utilities  
 Plant Additions and Retirements

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.10  
 Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	2010 Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	1,613	(3,409)	-	(1,796)	-	-	-	1,638,676	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	-	-	18,638,284	2,863,615
5	355	Power Generation	5.00%	800	-	-	800	-	-	27,807	556,531	169,367
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	23,246	1,162,305	(155,469)
7	361	Collection Sewers Gravity	2.00%	1,324,126	(7,422)	-	1,316,704	-	-	551,647	28,240,712	4,025,759
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	15,630	-	-	15,630	-	-	156	15,630	156
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	8,364	83,637	35,392
11	366	Reuse Services	2.00%	-	-	-	-	-	-	81,151	4,057,541	663,558
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	4,487	53,866	17,660
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	28,651	860,393	239,767
14	371	Pumping Equipment	12.50%	36,663	-	-	36,663	935,300	-	172,892	933,824	477,666
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	1,571	82,825	5,493
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	10,358	414,315	27,169
17	380	Treatment & Disposal Equipment	5.00%	35,345	-	-	35,345	-	-	293,765	5,893,380	2,008,265
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	2,389	47,788	11,907
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	11,445	343,681	96,003
20	389	Other Sewer Plant & Equipment	6.67%	33,548	(864)	-	32,684	-	-	43,515	668,735	136,041
21	390	Office Furniture & Equipment	6.67%	10,777	-	-	10,777	-	-	14,451	222,046	90,477
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	3,229	16,143	10,908
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	359	8,968	2,964
25	393	Tools, Shop And Garage Equip	5.00%	2,936	-	-	2,936	-	-	3,126	63,962	15,151
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	17,478	174,765	99,654
28	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
28	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	41,900	418,996	289,438
29				-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		1,461,458	(11,864)	-	1,449,594	935,300	-	1,982,860	84,777,043	11,131,408

Litchfield Park Service Company - WW Division  
 dba Liberty Utilities  
 Plant Additions and Retirements

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.11  
 Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011					Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	Salvage A/D Only	
1	351	Organization	0.00%	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-
4	354	Structures & Improvements	3.33%	455,088	(126,691)	328,396	-	-	3,489,938
5	355	Power Generation	5.00%	48,087	-	48,087	-	-	188,425
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	(132,253)
7	361	Collection Sewers Gravity	2.00%	3,563,023	(2,268)	3,560,755	-	-	4,626,181
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
9	363	Customer Services	2.00%	35,240	-	35,240	-	-	821
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	50,870
11	366	Reuse Services	2.00%	-	-	-	-	-	85,637
12	367	Reuse Meters And Installation	2.00%	-	-	-	-	-	43,756
13	370	Receiving Wells	8.33%	-	-	-	-	-	744,707
14	371	Pumping Equipment	3.33%	44,147	(782)	43,364	4,702	-	22,177
15	374	Reuse Distribution Reservoirs	12.50%	-	-	-	-	-	53,866
16	375	Reuse Trans. and Dist. System	2.50%	5,005	-	5,005	-	-	860,393
17	380	Treatment & Disposal Equipment	2.50%	69,624	(1,025)	68,599	-	-	978,486
18	381	Plant Sewers	5.00%	-	-	-	-	-	592,483
19	382	Outfall Sewer Lines	5.00%	-	-	-	-	-	7,063
20	389	Other Sewer Plant & Equipment	3.33%	36,081	-	36,081	-	-	419,320
21	390	Office Furniture & Equipment	6.67%	9,304	-	9,304	-	-	2,304,803
22	390.1	Computers and Software	6.67%	-	-	-	-	-	5,968,136
23	391	Transportation Equipment	20.00%	-	-	-	-	-	47,788
24	392	Stores Equipment	4.00%	-	-	-	-	-	14,296
25	393	Tools, Shop And Garage Equip	4.00%	29,211	(485)	28,726	-	-	107,448
26	394	Laboratory Equip	5.00%	5,476	(187)	5,289	-	-	107,448
26	395	Power Operated Equipment	10.00%	-	-	-	-	-	704,826
26	396	Communication Equip	5.00%	-	-	-	-	-	181,849
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	231,350
29				-	-	-	-	-	105,598
30				-	-	-	-	-	-
31				-	-	-	-	-	-
32				-	-	-	-	-	-
33				-	-	-	-	-	-
34				-	-	-	-	-	-
35				-	-	-	-	-	-
36				-	-	-	-	-	-
		Plant Held for Future Use		-	-	-	-	-	-
		TOTALS		4,300,296	(131,438)	4,168,858	4,702	-	13,098,801

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012									
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	PTY Plant	PTY Retirement
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	(2,541)	-	(2,541)	-	-	-	-	-	-	-
4	354	Structures & Improvements	3.33%	5,164,696	182,339	5,287,274	485,079	-	485,079	8,478	711,547	1,835,956	-
5	355	Power Generation	5.00%	4,604	-	4,604	6,291	-	6,291	-	30,189	24,968,875	3,722,884
6	360	Collection Sewer Forced	2.00%	292	-	292	-	-	-	-	23,249	602,932	222,323
7	361	Collection Sewers Gravity	2.00%	165,881	(1,400)	164,481	37,713	-	37,713	407	637,287	1,182,587	(109,004)
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	31,928,245	5,226,172
9	363	Customer Services	2.00%	25,356	(37)	25,320	-	-	-	-	1,271	76,180	2,092
10	364	Flow Measuring Devices	10.00%	-	-	-	808	-	808	-	8,323	82,828	51,269
11	366	Reuse Services	2.00%	118	-	118	-	-	-	23	81,152	4,057,690	825,882
12	367	Reuse Meters And Installation	8.33%	(4,774)	-	(4,774)	-	-	-	-	4,107	44,753	21,945
13	370	Receiving Wells	3.33%	-	-	-	4,339	-	4,339	-	28,651	860,393	297,089
14	371	Pumping Equipment	12.50%	257,054	(796)	306,860	393,199	31,017	424,216	-	114,977	861,150	283,244
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	539	-	539	-	1,584	82,286	8,088
16	375	Reuse Trans. and Dist. System	2.50%	1,013	-	1,013	-	-	-	803	10,498	420,334	48,908
17	380	Treatment & Disposal Equipment	5.00%	8,503	(66)	54,742	660,659	-	660,659	-	283,259	5,362,219	1,927,403
18	381	Plant Sewers	5.00%	14	-	14	-	-	-	-	2,390	47,802	16,886
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	11,445	343,681	118,862
20	389	Other Sewer Plant & Equipment	6.67%	136,484	-	136,484	7,497	-	7,497	-	51,314	833,823	225,666
21	390	Office Furniture & Equipment	6.67%	44,390	-	44,390	-	-	-	-	16,911	275,740	122,510
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	4,051	-	4,051	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	3,634	20,194	17,770
25	393	Tools, Shop And Garage Equip	5.00%	53,206	(284)	37,241	-	-	-	-	359	8,988	3,681
26	394	Laboratory Equip	10.00%	7,144	(34)	7,111	-	-	-	-	5,566	129,950	24,635
26	395	Power Operated Equipment	5.00%	28,090	(21,485)	6,605	-	-	-	-	18,363	187,184	135,959
26	396	Communication Equip	10.00%	-	-	(3,555)	-	-	-	-	165	6,605	165
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	41,722	415,441	373,059
29				-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		5,993,603	175,989	6,069,592	1,586,125	31,017	1,627,142	7,711	2,087,850	1,200,000	13,567,321

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities

Test Year Ended December 31, 2012

Original Cost Rate Base Proforma Adjustments

Adjustment Number 2

Exhibit  
Rebuttal Schedule B-2  
Page 4  
Witness: Bourassa

Accumulated Depreciation									
Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Post Test Year Retirement	B Accrual True-Up	C Plant Reclassification	D Plant Not Used and Useful	E Duplicate Invoices	F Adjustments
1	351	Organization Franchise	-	-	-	-	-	-	-
2	352	Land	-	-	-	-	-	-	-
3	353	Structures & Improvements	3,773,984	-	-	-	-	-	-
4	354	Power Generation	222,393	-	-	-	-	-	-
5	355	Collection Sewer Forced	(109,004)	-	-	-	-	-	-
6	360	Collection Sewers Gravity	5,222,855	-	-	-	-	-	-
7	361	Special Collecting Structures	-	-	-	-	-	-	-
8	362	Customer Services	2,092	-	-	-	-	-	-
9	363	Flow Measuring Devices	38,453	-	-	-	-	-	-
10	366	Reuse Services	825,859	-	-	-	-	-	-
11	367	Reuse Meters And Installation	21,945	-	-	-	-	-	-
12	370	Receiving Wells	297,089	-	-	-	-	-	-
13	371	Pumping Equipment	276,747	-	-	-	-	-	-
14	374	Reuse Distribution Reservoirs	8,088	-	-	-	-	-	-
15	375	Reuse Trans. and Dist. System	48,106	-	-	-	-	-	-
16	380	Treatment & Disposal Equipment	1,551,533	300,000	-	-	-	-	-
17	381	Plant Sewers	16,686	-	-	-	-	-	-
18	382	Outfall Sewer Lines	118,892	-	-	-	-	-	-
19	388	Other Sewer Plant & Equipment	234,145	-	-	-	-	-	-
20	390	Office Furniture & Equipment	122,510	-	-	-	-	-	-
21	390.1	Computers and Software	-	-	-	-	-	-	-
22	391	Transportation Equipment	33,497	-	-	-	-	-	-
23	392	Stores Equipment	3,681	-	-	-	-	-	-
24	393	Tools, Shop And Garage Equip	25,027	-	-	-	-	-	-
25	394	Laboratory Equip	135,667	-	-	-	-	-	-
26	395	Power Operated Equipment	702	-	-	-	-	-	-
27	396	Communication Equip	373,237	-	-	-	-	-	-
28	398	Other Tangible Plant	-	-	-	-	-	-	-
29	35		-	-	-	-	-	-	-
30	36		-	-	-	-	-	-	-
31	37		-	-	-	-	-	-	-
32	38		-	-	-	-	-	-	-
33	39		-	-	-	-	-	-	-
34	40		-	-	-	-	-	-	-
35	41		-	-	-	-	-	-	-
36	42		-	-	-	-	-	-	-
37	43		-	-	-	-	-	-	-
38	44		-	-	-	-	-	-	-
39	45		-	-	-	-	-	-	-
40	46		-	-	-	-	-	-	-
41	47		-	-	-	-	-	-	-
42	48		-	-	-	-	-	-	-
43	49		-	-	-	-	-	-	-
44	50		-	-	-	-	-	-	-
45	51		-	-	-	-	-	-	-

Plant Held for Future Use

TOTALS	\$ 13,244,186	\$ 300,000	\$ 3,136	\$ 32,185	\$ (5,661)	\$ (214)	\$ 7,711	\$ (10,515)	\$ (3,508)	\$ 13,567,321
Adjusted Accumulated Depreciation										\$ 13,244,186
Increase (decrease) in Accumulated Depreciation										\$ 323,134
Adjustment to Accumulated Depreciation										\$ 323,134

SUPPORTING SCHEDULES  
B-2, pages 4.1 through 4.7

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - A

Exhibit  
Rebuttal Schedule B-2  
Page 4.1  
Witness: Bourassa

Line

No.

1 A/D -Post Test Year Plant Retirements

2

3

4

Acct.

5

No. Description

Adjustment

6

380 Treatment & Disposal Equipment remove amount proposed in Direct

\$ 300,000

7

8

380 Treatment & Disposal Equipment true-up to actual cost

-

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

Net Adjustment

\$ 300,000

42

43

SUPPORTING SCHEDULE

44

Testimony

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 2 - B**

**Exhibit**  
**Rebuttal Schedule B-2**  
**Page 4.2**  
**Witness: Bourassa**

Line

No.

1 A/D - Accrual True-up

2

3

4

Acct.

Original

5

No.

Description

Cost

Depr Rate

Years

A/D

6

354

Structures & Improvements

199,000

3.33%

0.50

3,313

7

396

Communication Equip

(3,555)

10.00%

0.50

(178)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Net Adjustment

\$ 3,136

41

42

43

SUPPORTING SCHEDULE

44

Staff Adjustment #3

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - C

Exhibit  
Rebuttal Schedule B-2  
Page 4.3  
Witness: Bourassa

Line								
No.								
1	<u>A/D - Plant Reclassification</u>							
2								
3								
4	Acct.			Depr		Plant	A/D	
5	<u>No.</u>	<u>Description</u>	<u>Year</u>	<u>Rate</u>	<u>Years</u>	<u>Adjustment</u>	<u>Adjustment</u>	
6	354	Structures & Improvements	2009	3.33%	3.5	\$ (465,350)	\$ (54,237)	
7	354	Structures & Improvements	2011	3.33%	1.5	-	-	
8	354	Structures & Improvements	2012	3.33%	0.5	(59,760)	(995)	
9	Subtotal					<u>\$ (525,110)</u>	<u>\$ (55,232)</u>	
10	361	Collection Sewers Gravity	2009	2.00%	3.5	41,564	2,910	
11	361	Collection Sewers Gravity	2011	2.00%	1.5	-	-	
12	361	Collection Sewers Gravity	2012	2.00%	0.5	-	-	
13	Subtotal					<u>\$ 41,564</u>	<u>\$ 2,910</u>	
14	364	Flow Measuring Devices	2009	10.00%	3.5	36,618	12,816	
15	364	Flow Measuring Devices	2011	10.00%	1.5	-	-	
16	364	Flow Measuring Devices	2012	10.00%	0.5	-	-	
17	Subtotal					<u>\$ 36,618</u>	<u>\$ 12,816</u>	
18	371	Pumping Equipment	2009	12.50%	3.5	5,048	2,208	
19	371	Pumping Equipment	2011	12.50%	1.5	6,000	1,125	
20	371	Pumping Equipment	2012	12.50%	0.5	50,622	3,164	
21	Subtotal					<u>\$ 61,670</u>	<u>\$ 6,497</u>	
22	380	Treatment & Disposal Equipment	2009	5.00%	3.5	424,288	74,250	
23	380	Treatment & Disposal Equipment	2011	5.00%	1.5	6,156	462	
24	380	Treatment & Disposal Equipment	2012	5.00%	0.5	46,304	1,158	
25	Subtotal					<u>\$ 476,749</u>	<u>\$ 75,870</u>	
26	389	Other Sewer Plant & Equipment	2009	6.67%	3.5	(43,005)	(10,039)	
27	389	Other Sewer Plant & Equipment	2011	6.67%	1.5	-	-	
28	389	Other Sewer Plant & Equipment	2012	6.67%	0.5	-	-	
29	Subtotal					<u>\$ (43,005)</u>	<u>\$ (10,039)</u>	
30	393	Tools, Shop And Garage Equip	2009	5.00%	3.5	-	-	
31	393	Tools, Shop And Garage Equip	2011	5.00%	1.5	-	-	
32	393	Tools, Shop And Garage Equip	2012	5.00%	0.5	(15,681)	(392)	
33	Subtotal					<u>\$ (15,681)</u>	<u>\$ (392)</u>	
34	394	Laboratory Equip	2009	10.00%	3.5	836	293	
35	394	Laboratory Equip	2011	10.00%	1.5	-	-	
36	394	Laboratory Equip	2012	10.00%	0.5	-	-	
37	Subtotal					<u>\$ 836</u>	<u>\$ 293</u>	
38	395	Power Operated Equipment	2009	5.00%	3.5	-	-	
39	395	Power Operated Equipment	2011	5.00%	1.5	-	-	
40	395	Power Operated Equipment	2012	5.00%	0.5	(21,485)	(537)	
41	Subtotal					<u>\$ (21,485)</u>	<u>\$ (537)</u>	
42								
43								
44	Net Adjustment						<u>\$ 12,156</u>	<u>\$ 32,185</u>
45								
46	<u>SUPPORTING SCHEDULE</u>							
47	Staff Table 6 - Reclassification							
48	Testimony							
49								

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**

Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - D

Exhibit  
Rebuttal Schedule B-2  
Page 4.4  
Witness: Bourassa

Line  
No.

1 A/D Plant Not Used and Useful

2

3

4 Acct.

5 No. Description

6 353 Land

7 354 Structures & Improvements

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40 Net Adjustment

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #6

45

Original

Cost

Depr Rate

Years

A/D

(11,217)

0.00%

3.50

-

(113,329)

3.33%

1.50

(5,661)

\$ (5,661)

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - E

Exhibit  
Rebuttal Schedule B-2  
Page 4.5  
Witness: Bourassa

Line

No.

1 A/D Duplicate Invoices

2

3

4 Acct.

Original

5 No. Description

Cost

Depr Rate

Years

A/D

6	353	Land	\$ (3,409)	0.00%	2.50	\$ -
7	355	Power Generation	(400)	5.00%	3.50	(70)
8	389	Other Sewer Plant & Equipment	(864)	6.67%	2.50	(144)

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40 Net Adjustment

\$ (214)

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #7

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - F

Exhibit  
Rebuttal Schedule B-2  
Page 4.6  
Witness: Bourassa

Line

No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

2

3

4 Acct.

5 No. Description

6 351 Organization

7 352 Franchise

8 353 Land

9 354 Structures & Improvements

10 355 Power Generation

11 360 Collection Sewer Forced

12 361 Collection Sewers Gravity

13 362 Special Collecting Structures

14 363 Customer Services

15 364 Flow Measuring Devices

16 366 Reuse Services

17 367 Reuse Meters And Installation

18 370 Receiving Wells

19 371 Pumping Equipment

20 374 Reuse Distribution Reservoirs

21 375 Reuse Trans. and Dist. System

22 380 Treatment & Disposal Equipment

23 381 Plant Sewers

24 382 Outfall Sewer Lines

25 389 Other Sewer Plant & Equipment

26 390 Office Furniture & Equipment

27 390.1 Computers and Software

28 391 Transportation Equipment

29 392 Stores Equipment

30 393 Tools, Shop And Garage Equip

31 394 Laboratory Equip

32 395 Power Operated Equipment

33 396 Communication Equip

34 398 Other Tangible Plant

35

36

37

38

39

40 Plant Held for Future Use

41 TOTALS

42

43

44 SUPPORTING SCHEDULE

45 B-2, pages 4.1 through 4.3

46 B-2, pages 3.6 through 3.10

Depreciation  
Correction

\$ -

-

-

6,478

-

-

407

-

-

-

23

-

-

-

803

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

\$ 7,711

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - G

Exhibit  
Rebuttal Schedule B-2  
Page 4.7  
Witness: Bourassa

Line

No.

1 Retirements A/D

2

3

4 Acct.

5 No. Description

6 341

7 Transportation Equipment

8 Total

9

10

11 Reclassifications A/D

12

13 Acct.

14 No. Description

15 341

16 Transportation Equipment

17

18 Subtotal

19

20 389

21 Other Sewer Plant & Equipment

22

23 Subtotal

24

25 Total

26

27

28

29

30

31

32

33

34

35

36

37

38

39 Total Adjustment

40

41 SUPPORTING SCHEDULE

42 Schedule B-2, page 3.6

43 Work papers

44

45 <sup>1</sup> Post last test year end date

Adjustment  
(7,110)

\$ (7,110)

Depr

Rate

20.00%

4.125

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

4.125

6.67%

Plant A/D  
Adjustment Adjustment  
\$ (6,193) \$ (5,109)

\$ (6,193) \$ (5,109)

\$ 6,193 \$ 1,704

\$ 6,193 \$ 1,704

\$ (3,405)

\$ (10,515)

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - H

Exhibit  
Rebuttal Schedule B-2  
Page 4.8  
Witness: Bourassa

Line  
No.

Reconciliation of A/D to A/D Reconstruction

		Adjusted		B-2		Rebuttal		Rebuttal	
		Original		Adjustments		Adjusted		Plant	
		Cost				Original		Per	
						Cost		Reconstruction	Difference
		\$		\$		\$		\$	\$
351	Organization	-		-		-		-	-
352	Franchise	-		-		-		-	-
353	Land	-		-		-		-	-
354	Structures & Improvements	3,773,984		(51,101)		3,722,884		3,722,884	-
355	Power Generation	222,393		(70)		222,323		222,323	0
360	Collection Sewer Forced	(109,004)		-		(109,004)		(109,004)	-
361	Collection Sewers Gravity	5,222,855		3,317		5,226,172		5,226,172	-
362	Special Collecting Structures	-		-		-		-	-
363	Customer Services	2,092		-		2,092		2,092	-
364	Flow Measuring Devices	38,453		12,816		51,269		51,269	-
366	Reuse Services	825,859		23		825,882		825,882	-
367	Reuse Meters And Installation	21,945		-		21,945		21,945	-
370	Receiving Wells	297,089		-		297,089		297,089	-
371	Pumping Equipment	276,747		6,497		283,244		283,244	-
374	Reuse Distribution Reservoirs	8,088		-		8,088		8,088	-
375	Reuse Trans. and Dist. System	48,106		803		48,908		48,908	-
380	Treatment & Disposal Equipment	1,551,533		375,870		1,927,403		1,927,403	-
381	Plant Sewers	16,686		-		16,686		16,686	-
382	Outfall Sewer Lines	118,892		-		118,892		118,892	-
389	Other Sewer Plant & Equipment	234,145		(8,480)		225,666		225,666	-
390	Office Furniture & Equipment	122,510		-		122,510		122,510	-
390.1	Computers and Software	-		-		-		-	-
391	Transportation Equipment	33,497		(12,219)		21,278		17,770	(3,508)
392	Stores Equipment	3,681		-		3,681		3,681	-
393	Tools, Shop And Garage Equip	25,027		(392)		24,635		24,635	-
394	Laboratory Equip	135,667		293		135,959		135,959	-
395	Power Operated Equipment	702		(537)		165		165	-
396	Communication Equip	373,237		(178)		373,059		373,059	-
398	Other Tangible Plant	-		-		-		-	-
Plant Held for Future Use									-
TOTALS		\$ 13,244,186		\$ 326,642		\$ 13,570,828		\$ 13,567,321	\$ (3,508)

SUPPORTING SCHEDULE

B-2, pages 4.1 through 4.7

B-2, pages 3.7 through 3.11

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Rebuttal Schedule B-2  
Page 5  
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line  
No.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40

	Gross CIAC	Accumulated Amortization
Computed balance at 12/31/2012	\$ 28,376,915	\$ 4,153,301
Adjusted balance at 12/31/2012	\$ 28,470,485	\$ 4,446,775
Increase (decrease)	\$ (93,570)	\$ (293,475)
Adjustment to CIAC/AA CIAC	\$ (93,570)	\$ 293,475
Label	3a	3b

SUPPORTING SCHEDULES

E-1  
B-2, page 5.1 - 5.3

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Contributions-in-aid of Construction and Amortization  
Adjustment 3

Exhibit  
Rebuttal Schedule B-2  
Page 5.1  
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	17,134,023	706,018	17,840,041	2,870,602	20,710,643
2								
3								
4								
5								
6	Amortization			1,576,589	87,435		385,507	
7	Accum Amort.		8600.2.0000.10.1641.0100		87,435	1,664,024	385,507	2,049,531
8								
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	1,509,762	140,400	1,650,162	698,724	2,348,886
10								
11								
12	Amortization				7,900		39,990	
13	Accum Amort.		8600.2.0000.10.1641.0100	495,529	7,900	503,429	39,990	543,419
14								
15	Total CIAC Sewer			18,643,786		19,490,203		23,059,529
16								
17								
18	Total Accum Amort.			2,072,117		2,167,452		2,592,950
19								
20								
21								
22								
23								
24								
25								

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 3

Exhibit  
 Rebuttal Schedule B-2  
 Page 5.2  
 Witness: Bourassa

Line No.		Dep'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	1,079,042	21,789,685	3,955,923	25,745,608
2							
3							
4							
5							
6	Amortization			425,003		475,353	
7	Accum Amort.		8600.2.0000.10.1641.0100	425,003	2,474,534	475,353	2,949,887
8							
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	15,630	2,364,516	34,990	2,399,506
10							
11							
12	Amortization			47,134		47,640	
13	Accum Amort.		8600.2.0000.10.1641.0100	47,134	590,553	47,640	638,193
14							
15	Total CIAC Sewer				24,154,201		28,145,114
16							
17							
18	Total Accum Amort.				3,065,087		3,588,080
19							
20							
21							
22							
23							
24							
25							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 3

Exhibit  
 Rebuttal Schedule B-2  
 Page 5.3  
 Witness: Bourassa

Line No.	Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1				
2				
3				
4				
5				
6			514,912	
7			514,912	3,464,799
8				
9			231,801	2,631,307
10				
11				
12			50,308	
13			50,308	688,501
14				
15				28,376,915
16				
17				
18				4,153,301
19				
20				
21				
22				
23				
24				
25				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 4

Exhibit  
 Rebuttal Schedule B-2  
 Page 6.0  
 Witness: Bourassa

Line No.	Deferred Income Tax as of February 29, 2012				Effective Tax Rate	Future Tax Asset		Future Tax Liability	
	Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized		Current	Non Current	Current	Non Current
1									
2									
3									
4									
5									
6	Plant-in-Service	\$ 162,176,584 <sup>1</sup>							
7	Accum. Deprec.	(32,494,918) <sup>1</sup>							
8	CIAC	(59,777,267) <sup>3</sup>							
9	Fed. Fixed Assets	\$ 69,904,399	\$ 47,469,626 <sup>2</sup>	100.0%	\$ (22,434,774)		-		(7,132,015)
10									
11	State Fixed Assets	\$ 69,904,399	\$ 74,127,914 <sup>2</sup>	100.0%	\$ 4,223,514		274,528		-
12									
13	Fed & State AIAC		13,973,563 <sup>4</sup>	100.0%	\$ 13,973,563 <sup>4</sup>		\$ 5,350,477		
14									
15									
16									
17	Net Asset (Liability)					\$ (1,507,009)		\$ -	\$ (7,132,015)
18									
19	Allocation Factor - Wastewater-Division (based on rate base before ADIT)					0.4214			
20									
21	Net Asset (Liability) Wastewater Division					\$ (635,096)			
22									
23	Adjusted DIT Asset (Liability)					\$ (982,318)			
24									
25	Adjustment to DIT					\$ (347,221)			
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									
36									
37									
38									
39									
40									

Footnotes - See page 7.1

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities

Exhibit  
Rebuttal Schedule B-2  
Page 7.1  
Witness: Bourassa

Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

<sup>1</sup> Per adjusted book balances, land not included

<sup>2</sup> Computation of Net Tax Value December 31, 2012

Based on 2012 Tax Depreciation report (December 31, 2012) as amended

Unadjusted Cost at December 31, 2012 per federal and state tax depr. report

Reconciling items not on tax report:

Land on Tax and not on included in adjusted plant balance

F/A Accrual on not on tax report

Proposed Plant Retirements

Post Test Year plant

Post Test Year Plant Retirement

Plant Held for Future Use

Net Unadjusted Cost tax Basis at December 31, 2012

Reductions

Basis Reduction 2012 and Prior Years per federal and state tax depr. report

Accumulated Depreciation 2012 and prior per federal and state tax depr. report

Proposed Plant Retirements

Post Test Year retirement

Plant Held for Future Use

Net Reductions through December 31, 2012

Net tax value of plant-in-service at December 31, 2012

<sup>3</sup> CIAC (including impact of change to probability of realization)

Gross CIAC per adjusted book balances

CIAC reductions/additions

A.A per adjusted book balances

Net CIAC before unrealized AIAC

Unrealized AIAC Component

AIAC per adjusted book balances

Adjusted Net AIAC (see footnote 5 below)

Unrealized AIAC Component % (1-Realized AIAC Component)

Total realizable CIAC

<sup>4</sup> AIAC (including impact of change in probability of realization)

AIAC per adjusted book balances

Less: Unrealized AIAC (from Note 3, above)

Subtotal

Meter and Service Line Installation Charges per adjusted book balances

Total realizable AIAC

	FEDERAL	STATE
\$ 85,943,311	\$ 84,887,919	
(1,055,392)	-	
6,391,333	6,391,333	
(1,712,539)	(1,712,539)	
1,200,000	1,200,000	
	-	
	-	
	-	
\$ (25,331,094)		\$ 90,766,713
(19,678,532)	\$ -	
1,712,539	(18,351,338)	
-	1,712,539	
-	-	
	-	
	(43,297,087)	
	\$ 47,469,626	
		(16,638,799)
		\$ 74,127,914

\$ 35,802,727

\$ (5,439,155)

(5,439,155)

\$ 30,363,572

\$ 42,019,564

70.0%

\$ 29,413,695

\$ 59,777,267

\$ 42,019,564

\$ (29,413,695)

\$ 12,605,869

1,367,694

\$ 13,973,563

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 5

Exhibit  
Rebuttal Schedule B-2  
Page 7  
Witness: Bourassa

Line

No.

1 Customer Security Deposits

2

3 Adjustment to Customer Security Deposits based upon a 13 month average

\$ 8,334

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42 SUPPORTING SCHEDULE

43 Staff Adjustment #10

44

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Working Capital

Exhibit  
Rebuttal Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 778,102
3	Pumping Power (1/24 of Pumping Power)	25,068
4	Purchased Water (1/24 of Purchased Water)	1,111
5	Prepaid Expenses	
6		
7		
8		
9	Total Working Capital Allowance	<u>\$ 804,281</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		
14		
15		
16		
17		Rebuttal
18		<u>Adjusted Test Year</u>
18	Total Operating Expense	\$ 8,453,853
19	Less:	
20	Income Tax	\$ 1,031,551
21	Property Tax	547,273
22	Depreciation	21,921
23	Purchased Water	26,656
24	Pumping Power	601,635
25	Allowable Expenses	<u>\$ 6,224,817</u>
26	1/8 of allowable expenses	<u>\$ 778,102</u>
27		
28		
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
30	E-1	B-1
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rebuttal Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 9,853,383	\$ 1,193	\$ 9,854,576	\$ 524,028	\$ 10,378,604
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	508,220	-	508,220	-	508,220
5		<u>\$ 10,361,603</u>	<u>\$ 1,193</u>	<u>\$ 10,362,796</u>	<u>\$ 524,028</u>	<u>\$ 10,886,824</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 1,168,151	-	\$ 1,168,151	-	\$ 1,168,151
8	Purchased Water	26,656	-	26,656	-	26,656
9	Purchased Power	601,635	-	601,635	-	601,635
10	Sludge Removal Expense	234,893	3,423	238,316	-	238,316
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	357,986	-	357,986	-	357,986
13	Materials and Supplies	86,994	-	86,994	-	86,994
14	Management Services - US Liberty Water	1,469,058	(9,941)	1,459,117	-	1,459,117
15	Management Services - Corporate	698,951	-	698,951	-	698,951
16	Management Services - Other	-	-	-	-	-
17	Outside Services - Accounting	2,161	-	2,161	-	2,161
18	Outside Services - Engineering	-	-	-	-	-
19	Outside Services- Other	222,303	-	222,303	-	222,303
20	Outside Services- Legal	25,746	-	25,746	-	25,746
21	Water Testing	57,735	(27,078)	30,657	-	30,657
22	Rents - Office	40,007	-	40,007	-	40,007
23	Equipment Rental	3,076	-	3,076	-	3,076
24	Transportation Expenses	26,465	-	26,465	-	26,465
25	Insurance - General Liability	57,823	-	57,823	-	57,823
26	Insurance - Vehicle	11,506	-	11,506	-	11,506
27	Reg. Comm. Exp. - Other	14,189	-	14,189	-	14,189
28	Reg. Comm. Exp. - Rate Case	74,200	-	74,200	-	74,200
29	Miscellaneous Expense	77,293	3,498	80,791	-	80,791
30	Bad Debt Expense	45,215	(23,294)	21,921	-	21,921
31	Depreciation and Amortization Expense	1,598,765	27,613	1,626,378	-	1,626,378
32	Taxes Other Than Income	-	-	-	-	-
33	Property Taxes	576,026	(28,753)	547,273	9,248	556,521
34	Income Tax	1,013,153	18,398	1,031,551	197,110	1,228,661
35	<b>Total Operating Expenses</b>	<u>\$ 8,489,987</u>	<u>\$ (36,133)</u>	<u>\$ 8,453,853</u>	<u>\$ 206,358</u>	<u>\$ 8,660,211</u>
36	<b>Operating Income</b>	<u>\$ 1,871,616</u>	<u>\$ 37,326</u>	<u>\$ 1,908,943</u>	<u>\$ 317,671</u>	<u>\$ 2,226,613</u>
37	<b>Other Income (Expense)</b>					
38	Interest Income	-	-	-	-	-
39	Other income	-	-	-	-	-
40	Interest Expense	(259,945)	13,499	(246,446)	-	(246,446)
41	Other Expense	-	-	-	-	-
42		-	-	-	-	-
43	<b>Total Other Income (Expense)</b>	<u>\$ (259,945)</u>	<u>\$ 13,499</u>	<u>\$ (246,446)</u>	<u>\$ -</u>	<u>\$ (246,446)</u>
44	<b>Net Profit (Loss)</b>	<u>\$ 1,611,671</u>	<u>\$ 50,825</u>	<u>\$ 1,662,497</u>	<u>\$ 317,671</u>	<u>\$ 1,980,167</u>

SUPPORTING SCHEDULES:  
C-1, page 2  
E-2

RECAP SCHEDULES:  
A-1

**Exhibit  
Rebuttal Schedule C-1  
Page 2.1  
Witness: Bourassa**

[illegible]

Litchfield Park Service Company - WW Division  
 dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.2  
 Witness: Bourassa

Line No.		10	11	12	13	14	15	16	17	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues											
2	Metered Water Revenues											
3	Unmetered Water Revenues											
4	Other Water Revenues											
5												
6	Operating Expenses									508,220	524,028	508,220
7	Salaries and Wages									10,362,796	524,028	10,886,824
8	Purchased Water											
9	Purchased Power									1,168,151		1,168,151
10	Sludge Removal Expense									26,656		26,656
11	Fuel for Power Production									601,635		601,635
12	Chemicals									238,316		238,316
13	Materials and Supplies											
14	Management Services - US Liberty Water									357,986		357,986
15	Management Services - Corporate									86,994		86,994
16	Management Services - Other									1,459,117		1,459,117
17	Outside Services - Accounting									698,951		698,951
18	Outside Services - Engineering											
19	Outside Services - Other											
20	Outside Services - Legal											
21	Water Testing											
22	Rents - Office									2,161		2,161
23	Equipment Rental											
24	Transportation Expenses									222,303		222,303
25	Insurance - General Liability									25,746		25,746
26	Insurance - Vehicle									30,657		30,657
27	Reg. Comm. Exp. - Other									40,007		40,007
28	Reg. Comm. Exp. - Rate Case									3,076		3,076
29	Miscellaneous Expense									26,465		26,465
30	Bad Debt Expense									57,823		57,823
31	Depreciation and Amortization Expense									11,506		11,506
32	Taxes Other Than Income									14,189		14,189
33	Property Taxes									74,200		74,200
34	Income Tax									80,791		80,791
35	Total Operating Expenses		18,398							21,921	9,248	1,626,378
36	Operating Income		18,398							547,273	197,110	556,521
37	Other Income (Expense)		(18,398)							1,031,551	206,358	1,228,661
38	Interest Income									8,453,853		8,453,853
39	Other Income									1,908,943		1,908,943
40	Interest Expense											
41	Other Expense											
42												
43	Total Other Income (Expense)											
44	Net Profit (Loss)		13,499							(246,446)		(246,446)
45			13,499									
46			(18,398)							2,462,497	317,671	1,980,167
47												
48												

SUPPORTING SCHEDULES:  
 C-2  
 E-2

RECAP SCHEDULES:  
 C-1, page 1

Exhibit  
Rebuttal Schedule C-2  
Page 1  
Witness: Bourassa

Line No.		<u>Adjustments to Revenues and Expenses</u>						
1		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>Subtotal</u>
2			Property	Water	Corporate	Corporate	Interest	
3			Taxes	Testing	Allocation	Allocation	on	
4	Revenues	<u>Depreciation</u>			<u>True-up</u>	<u>Expense</u>	<u>Customer Dep.</u>	-
5								
6	Expenses	27,613	(28,753)	(23,668)	(7,420)	(2,521)	5,346	(29,403)
7								
8	Operating							
9	Income	(27,613)	28,753	23,668	7,420	2,521	(5,346)	29,403
10								
11	Interest							
12	Expense							-
13	Other							
14	Income /							-
15	Expense							
16								
17	Net Income	(27,613)	28,753	23,668	7,420	2,521	(5,346)	29,403
18								
19								
20		<u>Adjustments to Revenues and Expenses</u>						
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
22		Revenue	Bad				Intentionally	
23		Expense	Debt	Misc.	Interest	Income	Left	
24		<u>Annualization</u>	<u>Expense</u>	<u>Expense</u>	<u>Synch.</u>	<u>Taxes</u>	<u>Blank</u>	
25	Revenues	1,193						1,193
26								
27	Expenses	(1,493)	(23,294)	(342)	-	18,398	-	(36,133)
28								
29	Operating							
30	Income	2,686	23,294	342	-	(18,398)	-	37,326
31								
32	Interest							
33	Expense	-			13,499			13,499
34	Other							
35	Income /							-
36	Expense							
37								
38	Net Income	2,686	23,294	342	13,499	(18,398)	-	50,825
39								
40								

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**

Test Year Ended December 31, 2012  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Rebuttal Schedule C-2  
Page 2  
Witness: Bourassa

Depreciation Expense

Line

No.

1

2

3 Acct.

4 No. Description

5 351 Organization

6 352 Franchise

7 353 Land

8 354 Structures & Improvements

9 355 Power Generation

10 360 Collection Sewer Forced

11 361 Collection Sewers Gravity

12 362 Special Collecting Structures

13 363 Customer Services

14 364 Flow Measuring Devices

15 366 Reuse Services

16 367 Reuse Meters And Installation

17 370 Receiving Wells

18 371 Pumping Equipment

19 374 Reuse Distribution Reservoirs

20 375 Reuse Trans. and Dist. System

21 380 Treatment & Disposal Equipment

22 381 Plant Sewers

23 382 Outfall Sewer Lines

24 389 Other Sewer Plant & Equipment

25 390 Office Furniture & Equipment

26 390.1 Computers and Software

27 391 Transportation Equipment

28 392 Stores Equipment

29 393 Tools, Shop And Garage Equip

30 394 Laboratory Equip

31 395 Power Operated Equipment

32 396 Communication Equip

33 398 Other Tangible Plant

34

35

36

37

38

39

40

41

42

43

44

45

46

47

48

49

50

51

52

53

54

Adjusted

Original

Cost

Proposed

Rates

Depreciation

Expense

-

0.00%

-

-

0.00%

-

1,835,956

0.00%

-

24,968,875

3.33%

831,464

602,932

5.00%

30,147

1,162,597

2.00%

23,252

31,928,245

2.00%

638,565

-

2.00%

-

76,190

2.00%

1,524

82,828

10.00%

8,283

4,057,660

2.00%

81,153

44,753

8.33%

3,728

860,393

3.33%

28,651

861,150

12.50%

107,644

62,286

2.50%

1,557

420,334

2.50%

10,508

5,362,219

5.00%

268,111

47,802

5.00%

2,390

343,681

3.33%

11,445

833,823

6.67%

55,616

275,740

6.67%

18,392

-

20.00%

-

20,194

20.00%

4,039

8,968

4.00%

359

129,950

5.00%

6,497

187,184

10.00%

18,718

6,605

5.00%

330

415,441

10.00%

41,544

-

10.00%

-

-

-

-

-

-

-

-

-

-

-

TOTALS

\$ 74,595,805

\$ 2,193,916

Less: Amortization of Contributions

Gross CIAC

Amort. Rate

\$ 25,745,608

2.0000%

\$ (514,912)

2,631,307

2.0000%

\$ (52,626)

\$ 28,376,915

Total Depreciation Expense

\$ 1,626,378

Adjusted Test Year Depreciation Expense

1,598,765

Increase (decrease) in Depreciation Expense

27,613

Adjustment to Revenues and/or Expenses

\$ 27,613

SUPPORTING SCHEDULE

B-2, page 3

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Rebuttal Schedule C-2  
Page 3  
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 10,362,796	\$ 10,362,796
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	20,725,592	20,725,592
4	Company Recommended Revenue	10,362,796	10,886,824
5	Subtotal (Line 4 + Line 5)	31,088,388	31,612,416
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	10,362,796	10,537,472
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	20,725,592	21,074,944
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	51,225	51,225
12	Full Cash Value (Line 9 + Line 10 - Line 11)	20,674,367	21,023,719
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	3,928,130	3,994,507
15	Composite Property Tax Rate - Obtained from ADOR	13.9322%	13.9322%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 547,273	\$ 556,521
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 547,273	
19	Adjusted Test Year Property Taxes	\$ 576,026	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (28,753)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 556,521
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 547,273
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 9,248
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 9,248
27	Increase in Revenue Requirement		\$ 524,028
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.76474%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Water Testing Expense

Line  
No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Sludge Removal Expense Adjustment

\$ 3,410

Water Testing Expense Adjustment

(27,078)

Increase(decrease) in Expense

\$ (23,668)

Adjustment to Revenue and/or Expense

\$ (23,668)

Reference

Testimony

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Corporate Allocation True-Up

Line  
No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Corporate Allocation True-Up Adjustment

\$ (7,420)

Total Adjustment to Management Services - US Liberty Water

\$ (7,420)

Adjustment to Revenue and/or Expense

\$ (7,420)

SUPPORTING SCHEDULES

Staff Adjustment #2

Testimony

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Corporate Allocation Expense Adjustment

Line  
No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Corporate Allocation Expense Adjustment

\$ (2,521)

Total Adjustment to Management Services - US Liberty Water

\$ (2,521)

Adjustment to Revenue and/or Expense

(2,521)

Reference

Testimony

Work papers

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Interest on Customer Security Deposits

Line  
No.

1		
2	Interest on Customer Deposits	\$ 5,346
3		
4		
5		
6	Adjustment to Miscellaneous Expense	<u>\$ 5,346</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>5,346</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #4	
13	Testimony	
14		
15		
16		
17		
18		
19		
20		

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rebuttal Schedule C-2  
Page 8  
Witness: Bourassa

Revenue and Expense Annualization

Line  
No.

1		
2		
3	Revenue Annualization for Res Low Income	\$ 1,193
4		
5	Increase (decrease) in Revenues	<u>\$ 1,193</u>
6		
7	Annualized Purchase Power	\$ 54
8	Annualized Sudge Removal	13
9	Annualized Postage	(1,506)
10		
11	Increase (decrease) in Expenses	<u>\$ (1,439)</u>
12		
13		
14		
15		
16		
17		
18	<u>Reference</u>	
19	RUCO Adjustment #3	
20	Testimony	

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Rebuttal Schedule C-2  
Page 9  
Witness: Bourassa

Bad Debt Expense

Line  
No.

1

2

Reclassify Bad Debt Expense to Water Division

(23,294)

3

4

5

6

Adjustment to Bad Debt Expense

\$ (23,294)

7

8

9

Adjustment to Revenue and/or Expense

\$ (23,294)

10

11

Reference

12

RUCO Adjustment #11

13

14

15

16

17

18

19

20

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Rebuttal Schedule C-2  
Page 10  
Witness: Bourassa

Miscellaneous Expense

Line

No.

1		
2	Miscellaneous Expense Adjustment	\$ (342)
3		
4		
5	Adjustment to Miscellaneous Expense	<u>\$ (342)</u>
6		
7		
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (342)</u>
10		
11	<u>Reference</u>	
12	RUCO Adjustment 15	
13		
14		
15		
16		
17		
18		
19		
20		

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 10**

Exhibit  
Rebuttal Schedule C-2  
Page 11  
Witness: Bourassa

Interest Synchronization

Line  
No.

1			
2			
3			
4	Fair Value Rate Base	\$ 24,264,817	
5	Weighted Cost of Debt	1.02%	
6	Interest Expense		\$ 246,446
7			
8	Test Year Interest Expense		<u>\$ 259,945</u>
9			
10	Increase (decrease) in Interest Expense		(13,499)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		<u><u>\$ 13,499</u></u>

15

16

Weighted Cost of Debt Computation

Pro forma Capital Structure

	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
Debt	15.87%	6.40%	1.02%
Equity	84.13%	9.70%	8.16%
Total	100.00%		9.18%

23

24

25

26

27

28

29

30

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 11

Exhibit  
Rebuttal Schedule C-2  
Page 12  
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

Test Year  
at Present Rates

\$ 1,031,551

-

\$ 1,031,551

Test Year  
at Proposed Rates

\$ 1,228,661

1,031,551

\$ 197,110

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Gross Revenue Conversion Factor

Exhibit  
Rebuttal Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	<u>1.089%</u>
4		
5		
6	Total Tax Percentage	39.379%
7		
8	Operating Income % = 100% - Tax Percentage	60.621%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6496
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue		100.0000%				
2	Uncollectible Factor (Line 11)		0.0000%				
3	Revenues (L1 - L2)		100.0000%				
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)		39.3790%				
5	Subtotal (L3 - L4)		60.6210%				
6	Revenue Conversion Factor (L1 / L5)		1.649584				
<u>Calculation of Uncollectible Factor:</u>							
7	Unity		100.0000%				
8	Combined Federal and State Tax Rate (L17)		38.2900%				
9	One Minus Combined Income Tax Rate (L7 - L8)		61.7100%				
10	Uncollectible Rate		0.0000%				
11	Uncollectible Factor (L9 * L10)			0.0000%			
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)		100.0000%				
13	Arizona State Income Tax Rate		6.5000%				
14	Federal Taxable Income (L12 - L13)		93.5000%				
15	Applicable Federal Income Tax Rate (L55, Col E)		34.0000%				
16	Effective Federal Income Tax Rate (L14 x L15)		31.7900%				
17	Combined Federal and State Income Tax Rate (L13 + L16)			38.2900%			
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity		100.0000%				
19	Combined Federal and State Income Tax Rate (L17)		38.2900%				
20	One Minus Combined Income Tax Rate (L18-L19)		61.7100%				
21	Property Tax Factor		1.7647%				
22	Effective Property Tax Factor (L20*L21)			1.0890%			
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)				39.3790%		
24	Required Operating Income	\$	2,226,614				
25	Adjusted Test Year Operating Income (Loss)	\$	1,908,943				
26	Required Increase in Operating Income (L24 - L25)			\$	317,671		
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$	1,228,661				
28	Income Taxes on Test Year Revenue (Col. (B), L54)	\$	1,031,551				
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)			\$	197,110		
30	Recommended Revenue Requirement	\$	10,886,824				
31	Uncollectible Rate (Line 10)		0.0000%				
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$	-				
33	Adjusted Test Year Uncollectible Expense	\$	-				
34	Required Increase in Revenue to Provide for Uncollectible Exp.			\$	-		
35	Property Tax with Recommended Revenue	\$	556,521				
36	Property Tax on Test Year Revenue	\$	547,273				
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)			\$	9,248		
38	Total Required Increase in Revenue (L26 + L29 + L37)			\$	524,029		

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 10,362,796	\$ 10,362,796	\$ 10,886,824	\$ 10,886,824	
40	Operating Expenses Excluding Income Taxes	\$ 7,422,303	\$ 7,422,303	\$ 7,431,551	\$ 7,431,551	
41	Synchronized Interest (L47)	\$ 246,446	\$ 246,446	\$ 246,446	\$ 246,446	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 2,694,047	\$ 2,694,047	\$ 3,208,829	\$ 3,208,829	
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%	6.5000%	6.5000%	6.5000%	
44	Arizona Income Tax (L42 x L43)	\$ 175,113	\$ 175,113	\$ 208,574	\$ 208,574	
45	Federal Taxable Income (L42- L44)	\$ 2,518,934	\$ 2,518,934	\$ 3,000,255	\$ 3,000,255	
46						
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 742,538	\$ 742,538	\$ 906,187	\$ 906,187	
52						
53	Total Federal Income Tax	\$ 856,438	\$ 856,438	\$ 1,020,087	\$ 1,020,087	
54	Combined Federal and State Income Tax (L35 + L42)	\$ 1,031,551	\$ 1,031,551	\$ 1,228,661	\$ 1,228,661	
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]			34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]				34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					0.0000%

Calculation of Interest Synchronization:

58	Rate Base	\$ 24,264,817
59	Weighted Average Cost of Debt	1.0157%
60	Synchronized Interest (L45 X L46)	\$ 246,446

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Revenue Summary**  
 With Annualized Revenues to Year End Number of Customers  
 Test Year Ended December 31, 2012

Exhibit  
 Rebuttal Schedule H-1  
 Page 1  
 Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	\$ 7,214,632	\$ 7,601,361	\$ 386,729	5.36%	69.62%	69.82%
2	Residential - Low Income	23,862	25,141	1,279	5.36%	0.23%	0.23%
3	Residential HOA 145	67,843	71,479	3,637	5.36%	0.65%	0.66%
4	Residential HOA 172	80,475	84,789	4,314	5.36%	0.78%	0.78%
5	Residential HOA 560	262,013	276,058	14,045	5.36%	2.53%	2.54%
6	Subtotal	\$ 7,648,824	\$ 8,058,828	\$ 410,004	5.36%	73.81%	74.02%
7							
8	Multi-Unit Housing						
9	Multi-Unit 3	\$ 10,423	\$ 10,981	\$ 559	5.36%	0.10%	0.10%
10	Multi-Unit 5	4,524	4,766	243	5.36%	0.04%	0.04%
11	Multi-Unit 6	6,948	7,321	372	5.36%	0.07%	0.07%
12	Multi-Unit 7	109,439	115,305	5,867	5.36%	1.06%	1.06%
13	Multi-Unit 8	6,948	7,321	372	5.36%	0.07%	0.07%
14	Multi-Unit 13	62,102	65,431	3,329	5.36%	0.60%	0.60%
15	Multi-Unit 15	267,082	281,399	14,317	5.36%	2.58%	2.58%
16	Multi-Unit 16	6,948	7,321	372	5.36%	0.07%	0.07%
17	Multi-Unit 17	7,383	7,779	396	5.36%	0.07%	0.07%
18	Multi-Unit 22	9,554	10,066	512	5.36%	0.09%	0.09%
19	Multi-Unit 43	18,674	19,675	1,001	5.36%	0.18%	0.18%
20	Multi-Unit 78	33,874	35,690	1,816	5.36%	0.33%	0.33%
21	Multi-Unit 84	36,480	38,435	1,956	5.36%	0.35%	0.35%
22	Multi-Unit 123	106,833	112,560	5,727	5.36%	1.03%	1.03%
23	Multi-Unit 282	122,467	129,032	6,565	5.36%	1.18%	1.19%
24							
25	Subtotal	\$ 809,679	\$ 853,082	\$ 43,404	5.36%	7.81%	7.84%
26							
27	Small Commercial	\$ 75,094	\$ 79,115	4,021	5.35%	0.72%	0.73%
28	Measured Service:						
29	Regular Domestic	\$ 438,612	\$ 462,069	23,456	5.35%	4.23%	4.24%
30	Restaurant, Motels, Grocery, Dry Cleaning	375,664	395,758	20,094	5.35%	3.63%	3.64%
31	Subtotal	\$ 814,276	\$ 857,826	\$ 43,550	5.35%	7.86%	7.88%
32							
33	Wigwam Resort - Per Room	\$ 143,312	\$ 150,995	\$ 7,682	5.36%	1.38%	1.39%
34	Wigwam Resort - Main	17,200	18,120	920	5.35%	0.17%	0.17%
35	Subtotal	\$ 160,512	\$ 169,115	\$ 8,603	5.36%	1.55%	1.55%
36							
37	Elementary Schools	\$ 70,174	\$ 73,928	\$ 3,754	5.35%	0.68%	0.68%
38	Middle and High Schools	55,039	57,984	2,945	5.35%	0.53%	0.53%
39	Community College	21,327	22,469	1,141	5.35%	0.21%	0.21%
40	Subtotal	\$ 146,540	\$ 154,380	\$ 7,840	5.35%	1.41%	1.42%
41							
42	Effluent Sales	72,967	72,967	-	0.00%	0.70%	0.67%
43	Total Revenues Before Revenues Annualization	\$ 9,727,893	\$ 10,245,314	\$ 517,421	5.32%	93.87%	94.11%

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Revenue Summary**  
 With Annualized Revenues to Year End Number of Customers  
 Test Year Ended December 31, 2012

Exhibit  
 Rebuttal Schedule H-1  
 Page 2  
 Witness: Bourassa

<u>Line No.</u>	<u>Customer Classification</u>	<u>Present Revenues</u>	<u>Proposed Revenues</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Percent of Present Sewer Revenues</u>	<u>Percent of Proposed Sewer Revenues</u>
1							
2	<u>Revenue Annualization</u>						
3	Residential	\$ 128,534	\$ 135,424	\$ 6,890	5.36%	1.24%	1.24%
4							
5	Small Commercial	66	69	4	5.35%	0.00%	0.00%
6	Measured Service:						
7	Regular Domestic	(1,644)	(1,732)	(88)	5.35%	-0.02%	-0.02%
8	Restaurant, Motels, Grocery, Dry Cleaning	3,014	3,175	161	5.35%	0.03%	0.03%
9	Effluent Sales	(3,287)	(3,287)	-	0.00%	-0.03%	-0.03%
10	Subtotal Revenue Annualization	\$ 126,683	\$ 133,650	\$ 6,967	5.50%	1.22%	1.23%
11							
12	<u>Misc Service Revenues</u>						
13	Misc Revenues	\$ 463,236	\$ 463,236	\$ -	0.00%	4.47%	4.26%
14	Third Party Revenues (not on GL)	\$ 44,984	\$ 44,984	-	0.00%	0.43%	0.41%
15	Reconciling Amount to C-1	0	(359)	(359)	0.00%	0.00%	0.00%
16	Totals	\$ 10,362,796	\$ 10,886,825	\$ 524,028	5.06%	100.00%	100.00%
17							
18	<u>Reconciliation of Revenues</u>						
19	Revenues per GL	\$ 10,161,315					
20	Revenue Accrual Fix	29,814					
21	Adjusted GL Revenues	\$ 10,191,129					
22							
23	Revenues before Annualization	\$ 10,191,129					
24							
25	Difference		(0)				
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							
44							

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Analysis of Revenue by Detailed Class  
Special Rate Commercial Customers Pay Standard Commerical Rate

Rebuttal Schedule H-2  
Page 1  
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers	Average Water Use	Average Bill		Proposed Increase	
		at 12/31/2012		Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	15,692	N/A	\$ 38.99	\$ 41.08	\$ 2.09	5.360%
2	Residential - Low Income						
3	Residential HOA 145	1	N/A	5,653.55	5,956.60	303.05	5.360%
4	Residential HOA 172	1	N/A	6,706.28	7,065.76	359.48	5.360%
5	Residential HOA 560	1	N/A	21,834.40	23,004.80	1,170.40	5.360%
6							
7	Multi-Unit Housing						
8	Multi-Unit 3	8	N/A	108.57	114.39	5.82	5.361%
9	Multi-Unit 5	2	N/A	180.95	190.65	9.70	5.361%
10	Multi-Unit 6	4	N/A	144.76	152.52	7.76	5.361%
11	Multi-Unit 7	36	N/A	253.33	266.91	13.58	5.361%
12	Multi-Unit 8	2	N/A	289.52	305.04	15.52	5.361%
13	Multi-Unit 13	11	N/A	470.47	495.69	25.22	5.361%
14	Multi-Unit 15	41	N/A	542.85	571.95	29.10	5.361%
15	Multi-Unit 16	1	N/A	579.04	610.08	31.04	5.361%
16	Multi-Unit 17	1	N/A	615.23	648.21	32.98	5.361%
17							
18	Multi-Unit 22	1	N/A	796.18	838.86	42.68	5.361%
19	Multi-Unit 43	1	N/A	1,556.17	1,639.59	83.42	5.361%
20	Multi-Unit 84	1	N/A	3,039.96	3,202.92	162.96	5.361%
21	Multi-Unit 78	1	N/A	2,822.82	2,974.14	151.32	5.361%
22	Multi-Unit 123	2	N/A	4,451.37	4,689.99	238.62	5.361%
23	Multi-Unit 282	1	N/A	10,205.58	10,752.66	547.08	5.361%
24							
25	Small Commercial	95	N/A	65.93	69.46	3.53	5.354%
26	Measured Service:						
27	Regular Domestic	169	55,837	216.71	228.29	11.59	5.348%
28	Restaurant, Motels, Grocery, Dry Cleaning	72	92,066	432.79	455.94	23.15	5.349%
29							
30	Wigwam Resort - Per Room	1	N/A	11,942.70	12,582.90	640.20	5.361%
31	Wigwam Resort - Main	1	N/A	1,433.30	1,509.98	76.68	5.350%
32							
33	Elementary Schools	6	N/A	975	1,027	52.14	5.350%
34	Middle and High Schools	4	N/A	1,147	1,208	61.35	5.350%
35	Community College	1	N/A	1,777	1,872	95.09	5.350%
36							
37	Effluent Sales (\$125 per acre foot)	0	2,964,633	1,127	1,127	-	0.000%
38	Effluent Sales (\$100 per acre foot)	4	4,321,326	1,340	1,340	-	0.000%
39	Effluent Sales (\$200 per acre foot)	0	2,308,900	1,593	1,593	-	0.000%
40	Total	16,161					
41							
42							

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Present and Proposed Rates**  
**Test Year Ended December 31, 2012**

Exhibit  
Rebuttal Schedule H-3  
Page 1  
Witness: Bourassa

Line

No.

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Change</u>	<u>Percent Change</u>
1				
2	<u>Customer Classification</u>			
3				
4	<b>Monthly Charge for:</b>			
5	Monthly Residential Service	\$ 38.99	\$ 41.08 \$ 2.09	5.36%
6				
7	Multi-Unit Housing - Monthly per Unit	\$ 36.19	\$ 38.13 \$ 1.94	5.36%
8				
9	Commercial:			
10	Small Commercial - Monthly Service	\$ 65.93	\$ 69.46 \$ 3.53	5.35%
11	Measured Service:			
12	Regular Domestic:			
13	Monthly Service Charge	\$ 36.91	\$ 38.88 \$ 1.97	5.34%
14	Commodity Charge per 1,000 gallons	\$ 3.22	\$ 3.39 \$ 0.17	
15				
16	Restaurant, Motels, Grocery Stores & Dry Cleaning Estab. <sup>1</sup>			
17	Monthly Service Charge	\$ 36.91	\$ 38.88 \$ 1.97	5.34%
18	Commodity Charge per 1,000 gallons	\$ 4.30	\$ 4.53 \$ 0.23	
19				
20	Wigwam Resort:			
21	Monthly Rate - Per Room	\$ 36.19	\$ 38.13 \$ 1.94	5.36%
22	Main Hotel Facilities - Per Month	\$ 1,433.30	\$ 1,509.98 \$ 76.68	5.35%
23				
24	Schools - Monthly Service Rates:			
25	Elementary Schools	\$ 974.64	\$ 1,026.78 \$ 52.14	5.35%
26	Middle Schools	\$ 1,146.64	\$ 1,207.99 \$ 61.35	5.35%
27	High Schools	\$ 1,146.64	\$ 1,207.99 \$ 61.35	5.35%
28	Community College	\$ 1,777.29	\$ 1,872.38 \$ 95.09	5.35%
29				
30	Effluent <sup>2</sup>	Market	Market	
31				

32 <sup>1</sup> Motels without restuarants charged multi-unit monthly rate.

33 <sup>2</sup> Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand  
34 gallons.  
35

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Changes in Representative Rate Schedules**  
**Test Year Ended December 31, 2012**

Exhibit  
Rebuttal Schedule H-3  
Page 2  
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment (Regular Hours) per Rule R14-2-603D (a)	\$ 20.00	\$ 20.00
2	Establishment (After Hours) per Rule R14-2-603D (a)	\$ 40.00	NT
3	Re-Establishment of Service per Rule R14-2-603D (a)	(b)	(b)
4	Reconnection (Regular Hours) per Rule R14-2-603D (a)	\$ 50.00	\$ 20.00
5	Reconnection (After Hours) per Rule R14-2-603D (a)	\$ 65.00	NT
6	NSF Check, per Rule R14-2-608E (a)	\$ 25.00	\$ 25.00
7	Deferred Payment, Per Month	1.50%	1.50%
8	Late Charge (c)	(c)	(c)
9	Service Calls - Per Hour/After Hours(e)	\$ 40.00	\$ 40.00
10	Deposit Requirement	(e)	(e)
11	Deposit Interest	3.50%	6.00%
12	Service Lateral Connection Charge- All Sizes	(f)	(f)
13	Main Extension Tariff, per Rule R14-2-606B	(g)	(g)
14			
15			
16			
17	(a) Charges are applicable to wastewater service.		
18	(b) Minimum charge times number of full months off the system. per Rule R14-2-603D.		
19	(c) Greater of \$5.00 or 1.5% of unpaid balance.		
20	(d) No charge for service calls during normal working hours.		
21	(e) After hours service charge is appropriate when it is at the customer's requires or convenience. It compensates the utility		
22	for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility		
23	service provided after hours at the customers request or for the customer's convenience.		
24	(e) Per ACC Rules R14-2-603B <u>Residential</u> - two times the average bill.		
25	<u>Non-residential</u> - two and one-half times the average bill.		
26	(f) At cost. Customer/Developer shall install or cuase to be installed all Service Laterals as a		
27	non-refundable contribution-in-aid of construction..		
28	(g) All Main Extensions shall be completed at cost and shall be treated as non-refundable		
29	contribution-in-aid of construction.		
30			
31			
32	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
33	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
34	TAX. PER COMMISSION RULE 14-2-409D(5).		
35			
36			
37			
38			
39			

1 FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2 Todd Wiley (No. 015358)  
2394 E. Camelback Road  
3 Suite 600  
Phoenix, Arizona 85016  
4 Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
8

9 IN THE MATTER OF THE  
10 APPLICATION OF LITCHFIELD PARK  
SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
12 PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES  
13 FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
15 APPLICATION OF LITCHFIELD PARK  
SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
17 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
18 CHARGES FOR UTILITY SERVICE  
BASED THEREON.  
19

DOCKET NO: SW-01428A-13-0042

20  
21 **REBUTTAL TESTIMONY OF**  
22 **GREG SORENSEN**  
23

24 **October 23, 2013**  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**Table of Contents**

I. INTRODUCTION AND PURPOSE OF TESTIMONY..... 1

II. SECTION 2 – ACHIEVEMENT PAY (RUCO ADJUSTMENT 14 FOR  
WATER AND SEWER)..... 1

8602061.1/060199.0028

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road,  
4 Suite D-101, Avondale, AZ 85392.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
7 which is generally known as "LPSCO".

8 **Q. ARE YOU THE SAME GREG SORENSEN THAT PREVIOUSLY**  
9 **SUBMITTED DIRECT TESTIMONY IN THIS CASE?**

10 A. Yes. My direct testimony was filed on February 28, 2013 as part of the  
11 Application.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. At this time I am only responding to RUCO's proposed disallowance of  
14 Achievement Pay, RUCO Adjustment No. 14.

15 **II. SECTION 2 – ACHIEVEMENT PAY (RUCO ADJUSTMENT 14 FOR**  
16 **WATER AND SEWER)**

17 **Q. WHAT ADJUSTMENT DID RUCO PROPOSE REGARDING**  
18 **ACHIEVEMENT PAY?**

19 A. RUCO proposed disallowing \$138,887 and \$128,034 of achievement pay for the  
20 water and wastewater divisions, respectively. RUCO offers three separate reasons  
21 for its recommended adjustment: (1) both shareholders and customers gain from  
22 incentive programs; (2) future cost levels are uncertain; and (3) precedent supports  
23 an equal sharing.<sup>1</sup> None of these reasons, together or separate, supports RUCO's  
24 adjustment.

25  
26 <sup>1</sup> Direct Testimony of Robert B. Mease at 31:12 – 32:19.

1 **Q. WHY NOT?**

2 A. Because we are talking about test year operating expenses. The amounts we're  
3 seeking to recover were actually expensed during the test year as part of Liberty's  
4 normal salaries and wages expense. No one is arguing that it was unreasonable or  
5 prudent to pay those amounts. In other words, this is a cost of service and costs of  
6 service and shareholders do not generally share in paying operating expenses  
7 (chemicals, purchased power, water testing expenses, etc.).

8 **Q. THAT'S TRUE, MR. SORESENSEN GENERALLY, BUT ISN'T IT THE**  
9 **SHAREHOLDER THAT GETS THE LION'S SHARE OF THE BENEFIT**  
10 **OF BONUSES?**

11 A. No, absolutely not. I can't speak for how it works elsewhere but Liberty's  
12 achievement pay is based on metrics such as Customer Experience, Employee  
13 programs, Operational Excellence, Safety, Efficiency, and personal performance.  
14 We are measuring how well an employee served the customer's needs.

15 **Q. ARE BONUS PAYMENTS AN IMPORTANT RECRUITING AND**  
16 **RETENTION TOOL?**

17 A. Yes, and the use of terms like incentive pay or bonuses do not really capture what  
18 we do.

19 **Q. HOW WOULD YOU DESCRIBE LIBERTY'S MODEL?**

20 A. Bonuses or incentive programs are just a part of an employee's overall or total  
21 compensation. We hold some back and label it a bonus and it creates a continuing  
22 incentive. It is about a total compensation package and how it is apportioned  
23 during the year and that's where the focus should be. This total compensation has  
24 to be market competitive or, all other things being equal, employees will leave for  
25 what they perceive to be a better paying job. This will then lead to higher turnover  
26 for the utility and a degradation of service to the customer. A similar concept

1 applies to recruiting new employees to come to work at Liberty. When a candidate  
2 is considering coming to work here, one of the primary considerations they make is  
3 the compensation and benefits package. We have to design our pay and benefits  
4 packages to be market competitive.

5 **Q. BUT HOW DO WE KNOW THAT YOU WILL PAY THE SAME AMOUNT**  
6 **IN THE FUTURE?**

7 A. We don't. Nor do we know how much we will pay for power, fuel, paper clips or  
8 our lawyers. We are using a test year to set rates and we have asked to use the test  
9 year number. However, as I write this, we are accruing similar expense level for  
10 incentive pay to be paid in 2014. Furthermore, it is possible one person that got  
11 their bonus in the test year won't one year in the future. It is also possible we will  
12 have a new employee and pay them a bonus too, like Mr. Krygier as an example  
13 who was hired in 2012. The point is this is how we pay our employees and every  
14 test year provides a snap shot of the amount we will pay every year. Liberty strives  
15 to maintain a consistently high level of service and, frankly I think every Liberty  
16 employee expects to receive their total compensation package every year because  
17 they do their jobs well. I know I do.

18 **Q. SO LPSCO / LIBERTY HAS HISTORICALLY PAID BONUSES?**

19 A. Yes, that's the point. Like any expense, the year to year amount may vary slightly  
20 but the program is there, it is a recurring expense that will continue and the test  
21 year provides a reasonable expense level.

22 **Q. SINCE THE END OF THE TEST YEAR HAS LPSCO / LIBERTY**  
23 **MAINTAINED THE SAME LEVEL OF EXPENSE?**

24 A. Yes, we have maintained the same or slightly higher level of the expected expense.  
25 Our most recent annual payment was in April 2013.  
26

1 **Q. DOES LIBERTY HAVE ANY EVIDENCE REGARDING RUCO'S**  
2 **TREATMENT OF THIS EXPENSE FOR OTHER UTILITIES?**

3 A. We do not believe RUCO always makes this type of adjustment. In fact,  
4 I reviewed RUCO's adjustments involving RRUI<sup>2</sup> and there were no incentive pay  
5 adjustments proposed even though Liberty employees have been on an incentive  
6 pay system as long as I've been at the Company, which pre-dates the last LPSCO  
7 test year. RUCO does cite five gas and electric utility decisions, which RUCO  
8 believes supports its position,<sup>3</sup> however, I can cite several cases that support our  
9 position and illustrate how inconsistent RUCO is in its recommendations:

- 10 • 0% disallowance Decision No. 70372 (Arizona-American Water Company:  
11 Anthem Water and Anthem/Agua Fria Wastewater)
- 12 • 0% disallowance Decision No. 72059 (LPSCO sister company, Rio Rico  
13 Utilities, Inc.)
- 14 • 30% disallowance Decision No. 70351 (Arizona-American Water Company)
- 15 • 30% disallowance Decision No. 71410 (Arizona-American Water Company)
- 16 • 100% disallowance Decision No. 72047 (Arizona-American Water Company)

17 **Q. WHY IS AUTHORIZING THIS EXPENSE IN THE PUBLIC INTEREST?**

18 A. First, achievement pay is an important tool in recruiting employees to the company.  
19 Second, achievement pay is not purely a financial measure but rather is represented  
20 by a balanced approach which evaluates such things as customer service,  
21 operational reliability and employee development. Third, RUCO's position on the  
22 issue is extremely inconsistent from case to case without explanation. Fourth, this  
23 expense was incurred and will be a continuing expense going forward that helps us  
24 provide quality utility service to our customers.

25  
26 <sup>2</sup> Docket No. WS-02676A-09-0257. RRUI is Rio Rico Utilities, Inc., a sister entity to LPSCO.

<sup>3</sup> Direct Testimony of Robert B. Mease at 32:7.

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes.

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

1 FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2 Todd Wiley (No. 015358)  
2394 E. Camelback Road  
3 Suite 600  
Phoenix, Arizona 85016  
4 Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
7

8  
9 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
10 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
12 PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES  
13 FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
15 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
17 PROPERTY AND FOR INCREASES IN  
18 ITS WASTEWATER RATES AND  
CHARGES FOR UTILITY SERVICE  
19 BASED THEREON.

DOCKET NO: SW-01428A-13-0042

20  
21 **REBUTTAL TESTIMONY OF**  
22 **THOMAS J. BOURASSA**

23 **COST OF CAPITAL**

24 **October 23, 2013**  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**Table of Contents**

I. INTRODUCTION AND QUALIFICATIONS ..... 1

II. SUMMARY OF REBUTTAL TESTIMONY AND THE  
PROPOSED COST OF CAPITAL FOR THE COMPANY ..... 1

A. Summary of Company’s Rebuttal Recommendation ..... 1

B. Summary of the Staff and RUCO Recommendations ..... 6

C. The ROE Recommended by LPSCO is the Only Recommendation in This  
Case that Meets the Standards Set Forth in *Hope* and *Bluefield* ..... 7

D. Rebuttal to the Cost of Equity Recommendations of Staff and RUCO ..... 9

1. Actual, Authorized and Earned Proxy Group ROEs ..... 9

2. NYU Stern School Analysis & Commission Precedent..... 11

3. Dividend Payout Analysis ..... 19

4. Other Comments on Staff’s Testimony ..... 26

E. Responses to Staff’s Criticisms of the Company’s Cost of Capital Analysis  
..... 29

8602372.1/060199.0028

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
7 ("LPSCO" or the "Company").

8 **Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON RATE BASE**  
9 **ISSUES IN THIS DOCKET?**

10 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement  
11 and rate design is being filed in a separate volume at the same time as this  
12 testimony. In this volume, I present my cost of capital rebuttal testimony. Also  
13 attached are two exhibits, which are discussed below.

14 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST**  
15 **OF CAPITAL FOR THE COMPANY**

16 A. **Summary of Company's Rebuttal Recommendation**

17 **Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL**  
18 **TESTIMONY?**

19 A. I will provide updates of my cost of capital analysis and recommended rate of  
20 return using more recent financial data. I also will provide rebuttal responses as  
21 appropriate to the direct testimony of Staff witness Mr. John Cassidy and RUCO  
22 witness Mr. Robert Mease. The Company has also retained Dr. Wendell Licon,  
23 PhD from Arizona State University ("ASU") to provide rebuttal testimony on cost  
24 of capital.

25

26

1 **Q. HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE THE**  
2 **DIRECT FILING WAS MADE?**

3 A. Yes, but not significantly. The table below summarizes the results of my updated  
4 analysis:

<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
Range DCF Constant Growth Estimates	8.6%	9.3%	9.0%
Range of CAPM Estimates	8.8%	11.0%	9.9%
Range of Build Up Method	<u>8.7%</u>	<u>12.6%</u>	<u>10.6%</u>
Average of DCF and CAPM midpoint estimates	8.7%	11.0%	9.8%
Financial Risk Adjustment	-0.6%	-0.6%	-0.6%
Specific Company Risk Premium	<u>0.5%</u>	<u>0.5%</u>	<u>0.5%</u>
<b>Indicated Cost of Equity</b>	<b>8.7%</b>	<b>10.9%</b>	<b>9.7%</b>

15  
16 The schedules containing my updated cost of capital analysis are attached to this  
17 rebuttal testimony.

18 To summarize, my 9.7 percent ROE recommendation balances my judgment  
19 about the degree of financial and business risk associated with an investment in  
20 LPSCO, as well as consideration of the current economic environment.

21 **Q. IS THIS LOWER THAN THE COST OF EQUITY ESTIMATES IN YOUR**  
22 **DIRECT TESTIMONY?**

23 A. Yes. In February 2013, my cost of equity estimate was 10.0 percent compared to  
24 my current estimate of 9.7 percent.

1 **Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?**

2 A. The Company's recommended capital structure consists of 15.87 percent debt and  
3 84.13 percent common equity as shown on Rebuttal Schedule D-1. Based on my  
4 updated cost of capital analysis, I am recommending a cost of equity of 9.7 percent,  
5 as I explained above. The Company is adopting Staff's recommended cost of debt  
6 of 6.4 percent. Based on the foregoing, the Company's weighted average cost of  
7 capital ("WACC") is 9.18 percent, as shown on Rebuttal Schedule D-1.

8

9

	<u>Capital Structure</u>	<u>Cost</u>	<u>Wtd</u>
			<u>Cost</u>
11 Equity	84.13%	9.70%	8.16%
12 Debt	<u>15.87%</u>	<u>6.40%</u>	<u>1.02%</u>
13 Total	100.00%		9.18%

14

15 **Q. HOW HAVE ECONOMIC CONDITIONS CHANGED SINCE YOU**  
16 **PREPARED YOUR COST OF CAPITAL ANALYSIS IN FEBRUARY 2013?**

17 A. While expected GDP growth is similar now compared to February 2013 forecasts,  
18 interest rates are rising. With respect to economic growth, consensus estimates are  
19 that the economy will grow at a very modest annualized rate of 2.0 to 2.5 percent  
20 for the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2013 and 2.7 percent to 3.0 percent in 2014.<sup>1</sup>

21 In the meantime, however, the long-term interest rate has risen by about  
22 60 basis points, a nearly 20 percent rise.<sup>2</sup> There have also been larger increases in  
23 the shorter term U.S. Treasuries.<sup>3</sup> The rise in interest rates has been largely due to

24 <sup>1</sup> *Value Line* Selection & Opinion, October 18, 2013.

25 <sup>2</sup> Average monthly 30 Year U.S. Treasury bond yield for February 2013 was 3.17 percent compared to  
3.39 percent for September 2013; an approximate increase of 62 basis points.

26 <sup>3</sup> Average monthly 10 Year U.S. Treasury bond yield for February 2013 was 1.98 percent compared to  
2.81 percent for September 2013; an approximately increase of about 83 basis points.

1 the Federal Reserve indicating that it intended to begin curtailing its \$85 billion per  
2 month bond buying program by September 2013 on the expectation that the  
3 economic conditions would warrant it. The Federal Reserve's current bond buying  
4 program is one of a number of quantitative easing programs the Federal Reserve  
5 has implemented since the financial crisis of 2008. These programs have helped to  
6 drive interest rates to historical lows in order to promote economic growth and to  
7 mitigate risks to economic activity. But the Fed's low-interest policies have also  
8 boosted stock values at a pace beyond what future profitability of this asset class  
9 can sustain. Either value growth will slow or outright adjustments appear  
10 inevitable as the Fed curtails quantitative easing.<sup>4</sup>

11 That said, September 2013 came and went and the Federal Reserve decided  
12 to await more evidence that confirmed the improvement in the economy.<sup>5</sup> Based  
13 upon comments from the most recent Federal Open Market Committee meeting  
14 (September 2013), a majority of analysts expect the Fed to begin curtailing  
15 quantitative easing by December 2013 with the intent to end it by the second half  
16 of 2015.<sup>6</sup> Long-term interest rates remain elevated from a year ago. For example,  
17 the average monthly 30 year U.S. Treasury bond yield in September 2012 was  
18 3.18 percent compared to 3.79 percent for September 2013; an approximately  
19 60 basis point difference.

20  
21  
22  
23  
24  
25 <sup>4</sup> "Dow off 206 after Bernanke sees end to Fed easing," *MSN Money* (C. Blaine), June 19, 2013.

26 <sup>5</sup> *Blue Chip Financial Forecast*, October 2013.

<sup>6</sup> *Id.*

1 Q. HOW HAS THE ANALYSTS' OUTLOOK FOR THE WATER UTILITY  
2 INDUSTRY CHANGED SINCE YOU PREPARED YOUR COST OF  
3 CAPITAL ANALYSIS IN FEBRUARY 2013?

4 A. The most recent *Value Line* report for the water utility industry places particular  
5 emphasis on the need for significant capital investment to address aging  
6 infrastructure as well as on regulatory risk.<sup>7</sup> *Value Line* succinctly states the  
7 intertwined issue:

8  
9 The potential problem is that water systems are in such poor  
10 condition that a substantial amount of capital expenditures have to be  
11 made. This means that water bills will have to be raised significantly  
12 for all of the new investment. This is where politics gets involved.  
13 Ratepayers (i.e. voters) do not like their bills raised, even if the  
14 increase is to pay for prudent investment. On the other hand, if  
15 utilities don't believe they are getting fair treatment,<sup>8</sup> regulators know  
16 that the utilities will stop investing in their systems.

14 Q. PLEASE SUMMARIZE THE IMPLICATIONS OF THE LARGER  
15 ECONOMIC TRENDS AND INDUSTRY CHALLENGES.

16 A. As interest rates continue to rise and the need to continue replacing infrastructure  
17 becomes very real, attracting capital investment will be vital. One of the most  
18 effective ways to attract capital investment is awarding fair returns on equity  
19 investment. As I discuss further, the other ROEs recommended by the parties don't  
20 meet that expectation, which, as Dr. Licon explains, will have the effect of  
21 devaluing LPSCO and making it harder and more expensive to attract capital.

22  
23  
24  
25  
26 <sup>7</sup> *Value Line Water Industry*, Ratings and Reports, October 18, 2013.

<sup>8</sup> *Id.*

1           **B.     Summary of the Staff and RUCO Recommendations**

2       **Q.     PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**  
3       **STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE**  
4       **RATE BASE.**

5       A.     Staff is recommending a capital structure consisting of 15.9 percent debt and  
6       84.1 percent equity.<sup>9</sup> Staff determined a cost of equity of 8.4 percent based on the  
7       average cost of equity produced by its DCF and CAPM models, a financial risk  
8       adjustment and an economic assessment adjustment (EAA).<sup>10</sup> Staff also  
9       determined the cost of debt to be 6.4 percent. Staff used a sample of seven publicly  
10      traded water utilities; six of which are the same as those I used in my analysis.<sup>11</sup>  
11      Staff did not consider firm size or firm-specific risks in its analysis. Based on its  
12      capital structure recommendation, Staff determined the WACC for LPSCO to be  
13      8.1 percent.<sup>12</sup>

14             RUCO did not perform any sort of meaningful cost of capital analysis.  
15      Instead, RUCO relied on its cost of capital prepared in the Rio Rico Utilities rate  
16      case that was decided on July 30, 2013.<sup>13</sup> RUCO recommends the return on equity  
17      of 9.2 percent adopted in that proceeding.<sup>14</sup> RUCO is recommending a capital  
18      structure of 15.87 percent debt and 85.13 percent equity, with a cost of debt of 6.86  
19      percent.<sup>15</sup> Based on its recommended capital structure, RUCO determined the  
20      WACC for LPSCO to be 8.83 percent.<sup>16</sup>

21  
22      <sup>9</sup> Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 38.

23      <sup>10</sup> *Id.* at 39.

24      <sup>11</sup> Staff has added York Water (YORW) to its proxy group.

25      <sup>12</sup> Cassidy Dt. at 47.

26      <sup>13</sup> Direct Testimony of Robert B. Mease ("Mease Dt.") at 35. *See also Rio Rico Utilities, Inc.*,  
Decision No. 73996.

<sup>14</sup> *Id.* at 37.

<sup>15</sup> *Id.* at 36, 37.

<sup>16</sup> *Id.*

1 Q. HAS THE COMPANY'S PROPOSED CAPITAL STRUCTURE CHANGED?

2 A. No, but as I noted above, we accepted Staff's cost of debt of 6.4 percent, which is  
3 lower than the cost of debt of 6.86 percent I used in the direct filing.

4 Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY  
5 ESTIMATES AND RECOMMENDATIONS AT THIS STAGE OF THE  
6 PROCEEDING.

7 A. The respective parties' cost of equity recommendations are summarized below:

8

9 Party	DCF	CAPM	Build- Up	Average	Financial Risk/EAA	Adjusted	Recommended
10 LPSCO	9.0%	9.9%	10.6%	9.8%	-.1%	9.8%	9.7%
11 Staff	8.7%	8.1%	N/A	8.4%	0%	8.4%	8.4%
12 RUCO	N/A	N/A	N/A	N/A	N/A	N/A	9.2%

13

14 C. The ROE Recommended by LPSCO is the Only Recommendation in  
This Case that Meets the Standards Set Forth in *Hope* and *Bluefield*

15 Q. PLEASE SUMMARIZE WHY YOU BELIEVE THE STAFF AND RUCO  
16 COST OF EQUITY RECOMMENDATIONS DO NOT MEET THE  
17 COMPARABLE EARNINGS STANDARDS SET FORTH IN *HOPE* AND  
18 *BLUEFIELD*.

19 A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions  
20 require that the rate of return afforded to utilities be similar to the return in  
21 businesses with similar or comparable risks.<sup>17</sup> Neither of the other two parties'  
22 cost of capital recommendations for LPSCO meet this standard. Almost every  
23 meaningful comparison of Staff's and RUCO's recommendations with other  
24 comparative data suggests that their recommendations fall far short. In summary,  
25 there are several reasons:

26 <sup>17</sup> Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Dt.") at 17-18.

- 1 • Actual Earned Proxy Group ROE - The current average of  
2 actual return on equity for Staff's water proxy group is 9.2  
3 percent. This is 80 basis points above the Staff  
4 recommendation of 8.4 percent.
- 5 • Projected Proxy Group ROEs - The 3-5 year projected earned  
6 equity returns for Staff water proxy group is 9.9 percent.  
7 This is 150 basis points above the Staff recommendation and  
8 70 basis points above the RUCO recommendation.
- 9 • Authorized Proxy Group ROEs - The average authorized  
10 return for the publicly traded utilities is 10 percent. This is  
11 160 basis points above the Staff recommendation and 80 basis  
12 points above the RUCO recommendation.
- 13 • NYU Stern School Analysis - Based on an analysis of the ratio  
14 of allowed equity returns to debt costs for publicly traded  
15 water utilities conducted by the New York University Stern  
16 Business School, the indicated cost of equity for LPSCO  
17 should be 10.7 percent. This is 230 basis points above the  
18 Staff recommendation and 150 basis points above the RUCO  
19 recommendation.
- 20 • Commission Precedent - Based on an analysis of the ratio of  
21 allowed equity returns to debt costs for Arizona Class A and B  
22 water and wastewater utilities prepared by the Company, the  
23 indicated cost of equity for LPSCO should be 10 percent.  
24 This is 160 basis points above the Staff recommendation and  
25 80 basis points above the RUCO recommendation.
- 26 • Dividend Payout Analysis - Based on a dividend payout ratio  
analysis, the Company cannot pay dividends at a rate  
comparable to the publicly traded water utilities.  
This impedes LPSCO ability to attract capital. In order to pay  
dividends at a comparable rate, the required return on equity  
needs to be between 9.8 percent and 11.4 percent; 140 to 300  
basis points above the Staff recommendation and 60 to 220  
basis points above the RUCO recommendation.
- Staff and RUCO fail to account for the differences in risk  
between the publicly traded utilities and LPSCO.

1           **D.     Rebuttal to the Cost of Equity Recommendations of Staff and RUCO**

2                 1.     Actual, Authorized and Earned Proxy Group ROEs

3   **Q.   HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO**  
4   **OTHER FORECASTS OF COMMON EQUITY RETURNS AND**  
5   **CURRENTLY AUTHORIZED RETURNS?**

6   **A.**   They are much lower. *Value Line*, a reputable publication used by the Company  
7   and Staff cost of capital witnesses in the instant case, publishes forecasts of returns  
8   on common equity for larger publicly traded companies. Six water utilities are  
9   included in my sample group while Staff includes seven. Staff has recently added  
10   York Water (YORW) to its proxy group. *Value Line* (October 18, 2013) shows  
11   projected returns on equity for those water utilities:

12

<u>Company</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2016-18</u>
American States Water (AWR)	11.9%	12.5%	12.0%	11.5%
Aqua America (WTR)	11.0%	12.0%	12.0%	12.5%
California Water (CWT)	9.0%	7.0%	8.0%	9.5%
Connecticut Water (CTWS)	7.3%	9.0%	9.5%	8.5%
Middlesex Water (MSEX)	7.8%	8.0%	8.5%	9.0%
SJW Corp. (SJW)	8.1%	8.5%	8.5%	8.5%
York Water. (YORW)	<u>9.3%</u>	<u>9.5%</u>	<u>10.0%</u>	<u>10.0%</u>
Averages	9.2%	9.5%	9.8%	9.9%

22

23   Furthermore, the currently authorized ROEs for the sample water utility companies  
24   as reported by AUS Utility Reports (October 2013) average 10.03 percent. They  
25   are as follows:

Company

American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	<u>NM</u>
Average	<b>10.03%</b>

**Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?**

A. For one, they are all much higher than the Staff returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. In fact, if we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield*, then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as LPSCO. Yet, if the Staff or RUCO recommendation is adopted, LSPCO will be allowed to earn much less, failing the *Hope and Bluefield* standard.

1                   2.     NYU Stern School Analysis & Commission Precedent

2     **Q.   HAVE YOU LOOKED AT RELATIONSHIPS BETWEEN THE COST OF**  
3     **EQUITY AND THE COST OF DEBT TO ASSIST YOU IN DETERMINING**  
4     **THE   REASONABLENESS   OF   ALL   OF   THE   PARTIES**  
5     **RECOMMENDATIONS IN THE INSTANT CASE?**

6     A.   Yes.  First, I reviewed a study conducted by the New York University, Stern  
7     School of Business that reported the current ratios of the cost of equity to the cost  
8     of debt for publicly traded utilities and several industry sectors, including electric,  
9     gas, and water.  Based on that review, the indicated comparable cost of equity for  
10    an investment in LPSCO should be 10.69 percent.  Next, I conducted an analysis of  
11    adopted costs of equity and cost of debt for Class A and B utilities in Arizona since  
12    2004.  Based on my analysis, the indicated comparable cost of equity for LPSCO  
13    should be at 10.05 percent.

14    **Q.   WHAT IS THE NEW YORK UNIVERSITY, STERN SCHOOL OF**  
15    **BUSINESS?**

16    A.   The Leonard N. Stern School of Business at New York University is one of the  
17    nation's top business schools.  U.S. News & World Report annually ranks the  
18    undergraduate and graduate schools and programs at American universities.  
19    The Stern School currently holds the following rankings from U.S. News:

- 20                   •   #10 Best Business School in America  
21                   •   #9 in Accounting  
22                   •   #3 in Finance  
23                   •   #6 in Executive MBA  
24                   •   #10 in Information Systems  
25                   •   #5 in International Business  
26

1 **Q. DOES THE STERN SCHOOL PUBLISH AN ANNUAL REPORT THAT**  
2 **EVALUATES THE CURRENT COSTS OF DEBT AND EQUITY FOR**  
3 **EVERY SECTOR OF THE U.S. ECONOMY?**

4 A. It does, and I am relying on data from the 2013 study to evaluate the effectiveness  
5 of the Staff's approach to cost of equity analysis in this testimony.

6 **Q. WHAT IS THE KEY METRIC FOR YOUR ANALYSIS?**

7 A. I looked at the relationship between real world equity and debt costs for every  
8 regulated industry, and in particular the U.S. water utility sector. The Stern  
9 Review evaluates 11 water companies throughout the U.S. and, while each  
10 company has its own unique debt and equity costs, the important metric is the  
11 equity to debt ratio of cost.

12 **Q. WHAT IS A EQUITY TO DEBT RATIO OF COST?**

13 A. It is the difference between the cost of debt and the cost of equity.

14 **Q. DOESN'T DEBT ALWAYS COST LESS THAN EQUITY?**

15 A. It does, and if one reflects on the difference in the claims that debt holders and  
16 equity owners have on the assets and the income of an entity, it's easy and obvious  
17 to see why debt would be cheaper. Debt holders have a claim on the assets of the  
18 company and first rights to the income of the company.

19 **Q. WHAT DOES THAT MEAN IN PRACTICAL TERMS?**

20 A. It means that if the company remains viable, and generates income (i.e., the  
21 revenue generated by the company's activities is greater than the costs associated  
22 with the company's activities), the first people to get their share of that income are  
23 debt holders. So they face less risk of being paid back for their investment.

24 Now, if the company runs into difficulties and has to declare bankruptcy,  
25 the assets of the company have to be divided among the owners of the company.  
26 The first rights on those assets are held by debt owners; so if the company fails, the

debt holders face less risk of losing all their investment in the company. Equity holders, or shareholders, are the ones who usually get wiped out in a bankruptcy.

So, that's why debt costs less than equity – when a company issues debt, the purchasers know they have the first claim on any income, and if the company fails, they have the first rights to the assets of the company. Equity owners therefore face greater risk. In economics, risk is compensated by return – the more risk an investor faces, the more return they demand.

**Q. WHAT IS THE CURRENT EQUITY TO DEBT COST RATIO FOR UTILITIES IN THE U.S., ACCORDING TO THE STERN REVIEW?**

**A.** It is as follows:

<b>STERN REVIEW OF U.S. UTILITY SECTORS</b>	<b>COD/COE RATIO IN STERN REVIEW</b>	<b>STERN REVIEW OF U.S. UTILITY SECTORS</b>	<b>COD/COE RATIO IN STERN REVIEW</b>
<b>ELECTRIC (CENTRAL U.S.) 20 UTILITIES</b>	<b>2.248</b>	<b>POWER GENERATION 101 ENTITIES</b>	<b>2.256</b>
<b>ELECTRIC (EASTERN U.S.) 17 UTILITIES</b>	<b>1.876</b>	<b>TELECOM UTILITIES (23 UTILITIES)</b>	<b>2.565</b>
<b>ELECTRIC (WESTERN U.S.) 15 UTILITIES</b>	<b>2.274</b>		
<b>NATURAL GAS UTILITIES (27 UTILITIES)</b>	<b>1.594</b>		
<b>WATER UTILITIES (11 UTILITIES)</b>	<b>1.67</b>		

1 **Q. SO THE EQUITY TO DEBT COST RATIOS FOR NATURAL GAS**  
2 **UTILITIES AND WATER UTILITIES ARE THE LOWEST?**

3 A. That's correct. That indicates that natural gas utilities and water utilities are  
4 regarded as the least risky equity investments in the U.S. utility sector.

5 **Q. DOES ANYTHING STRIKE YOU IN THAT RESULT?**

6 A. The first thing that strikes me is that RUCO's past analyses consistently use natural  
7 gas utilities as proxies for water utilities in their cost of equity models. And, by  
8 using natural gas utilities as proxies, they are understating the actual cost of equity  
9 for water utilities.

10 **Q. WOULD YOU EXPECT ARIZONA'S EQUITY TO DEBT COST RATIOS**  
11 **TO MIRROR THE STERN REVIEW FINDINGS?**

12 A. I would. I have put every company that Staff and RUCO use as a proxy, and that is  
13 also included in the Stern Review the table below. Notably, every one of Staff and  
14 RUCO's proxies is in the Stern Review of cost of capital, real world data, circa  
15 2013.

16  
17 **Staff Proxy Companies**

**RUCO Proxy Companies**

18 **Water Utilities**

**Water Utilities**

19 American States

American Water Works

20 California Water

American States

21 Aqua America

California Water

22 Connecticut Water

Middlesex Water

23 Middlesex Water

SJW Corp

24 SJW Corp

Aqua America

25 York Water<sup>18</sup>

26 <sup>18</sup> York Water is a recent addition to the Staff water proxy group.

**RUCO Proxy Companies**

**Natural Gas Utilities**

AGL Resources

Atmos Energy

LaClede Group

New Jersey Resources

Northwest Natural Gas

Piedmont Natural Gas

South Jersey Industries

Southwest Gas

WGL Holdings

**Q. SO IT APPEARS THAT THE STERN REVIEW AND STAFF AND RUCO ALL INCLUDED THE SAME COMPANIES?**

**A.** The Stern Review is actually broader, it includes 11 publicly traded water utilities throughout the U.S., and 27 publicly traded natural gas utilities. Therefore, one can have more confidence in the Stern Review's conclusions because they include many more companies. Now, again, I want to emphasize that I am not comparing the costs of debt and the costs of equity for each company because every company has unique circumstances. What we need to look at is the real world results and the best way to measure that is through the average equity to debt cost ratio.

**Q. WHAT DOES THE STERN REVIEW CONCLUDE REGARDING THE EQUITY TO DEBT COST RATIO FOR WATER UTILITIES IN THE UNITED STATES IN 2012?**

**A.** The result in the Stern Review is that the equity to debt cost ratio for water utilities in the United States in 2012 was 1.67. That is, equity costs 1.67 times more than debt for water utilities as of 2013.

1 **Q. WHAT DOES THE STERN REVIEW CONCLUDE REGARDING THE**  
2 **EQUITY TO DEBT COST RATIO FOR NATURAL GAS UTILITIES IN**  
3 **THE UNITED STATES IN 2012?**

4 A. The result in the Stern Review is that the equity to debt cost ratio for natural gas  
5 utilities in the United States in 2012 was 1.594. That is, equity costs 1.594 times  
6 more than debt for natural gas utilities as of 2013.

7 **Q. WHAT ABOUT ARIZONA? WHAT IS THE AVERAGE EQUITY TO**  
8 **DEBT COST RATIO FOR ARIZONA WATER UTILITIES?**

9 A. Using 2012 Corporation Commission decisions for water utilities only, the ratio of  
10 cost was 1.855. I would note that I also excluded Arizona-American Water  
11 Company's 2012 decision in Docket No. 10-0448, which had an equity to debt cost  
12 ratio of 5.0 because Arizona-American has a very high proportion of intercompany,  
13 short term debt that was priced below 1 percent. To include that 5.0 ratio would  
14 have unfairly increased the Arizona average equity to debt cost ratio up to 2.9.  
15 The appropriate number is 1.855.

16 **Q. WHAT ABOUT ARIZONA'S 2013 DECISIONS FOR WATER UTILITIES?**

17 A. So far, the average equity to debt cost ratio for Arizona water utility decisions from  
18 the Corporation Commission has averaged 1.57.

19 **Q. ARE THE ARIZONA 2013 EQUITY TO DEBT RATIOS FOR WATER**  
20 **UTILITIES HIGHER THAN NORMAL FOR THE CORPORATION**  
21 **COMMISSION?**

22 A. They are not. Here are the average equity to debt ratios for Class A and B water  
23 utility decisions from the Corporation Commission dating back to 2004:  
24  
25  
26

- 2013: 1.57
- 2012: 1.855
- 2011: 1.46
- 2010: 1.585
- 2009: 1.859
- 2008: 1.555
- 2007: 1.703
- 2006: 1.92
- 2005: 1.445
- 2004: 1.503

The range of equity to debt cost ratios since 2004 is 1.445 to 1.92; an average of 1.647 and a median of 1.578. The Arizona 2013 average ratio of 1.57 is well within the range and lower than the average and approximately at the mid-point.

**Q. WHAT IS THE EQUITY TO DEBT COST RATIO IN STAFF'S TESTIMONY IN THIS CASE?**

A. Staff's equity to debt cost ratio in this case is 1.31; well below the low end of the range since 2004.

**Q. IN THE PAST FIVE YEARS HAVE YOU FOUND ANY EQUITY TO DEBT COST RATIO THAT LOW?**

A. Yes, in 2010, Staff and the Commission issued a equity to debt cost ratio of 1.24 to Litchfield Park Service Company. That was far and away the lowest ratio that year; the average that year for water utilities was 1.585.

**Q. WAS THAT BECAUSE LPSCO HAD THE HIGHEST LEVEL OF EQUITY OF ANY OF THOSE COMPANIES?**

A. It did have the highest level of equity, 82.14; but in that same year Black Mountain Sewer Corporation had 80 percent equity and received a equity to debt cost ratio of 1.63.

1 Q. WERE THERE ANY OTHER COMPANIES IN THE PAST FIVE YEARS  
2 THAT HAD AN EQUITY TO DEBT COST RATIO NEAR WHAT STAFF IS  
3 PROPOSING IN THIS CASE?

4 A. Yes, in 2008, Gold Canyon Sewer Company received an equity to debt cost ratio of  
5 1.02. That was far and away the lowest ratio that year; the average that year was  
6 1.555.

7 Q. SO IN THE PAST FIVE YEARS, THE THREE LOWEST RATIOS WERE  
8 ALL FOR COMPANIES OWNED BY LIBERTY UTILITIES?

9 A. That's correct.

10 Q. WHAT IS THE AVERAGE DEBT/EQUITY STRUCTURE FOR  
11 U.S. WATER UTILITIES?

12 A. The Stern Review shows that it is 43 percent debt, 57 percent equity.

13 Q. SO LIBERTY UTILITIES' ENTITIES DO HAVE HIGHER THAN  
14 AVERAGE EQUITY. SHOULDN'T THAT HAVE AN EFFECT ON THEIR  
15 ROE?

16 A. Yes it should, and it does. In 2013, the lowest ROE granted to any water utility  
17 was to Liberty's Rio Rico Utilities, 9.2 percent. Liberty agrees that its ROE should  
18 be lower due to less financial risk, but it still has to be rational. In the Rio Rico  
19 case, Liberty asked for an ROE of 9.5 while the average company recommendation  
20 for all the other water companies was 11.02. Liberty recognizes its ROE should be  
21 lower because of the lower level of debt its corporate structure. In the recent  
22 Rio Rico case, Liberty asked for a 9.5 ROE because of that structure. Liberty  
23 received an ROE 66 basis points lower than its peers – and Liberty believes that  
24 was a fair result that properly and accurately reflects the reduced risk because of  
25 our low use of debt. But Staff's recommended ROE in this case is 146 basis points  
26 lower than the Commission's year to date average ROE for water utilities. And the

1 year to date average equity to debt cost ratio for water utilities is 1.57; Staff is  
2 recommending a 1.31 ratio for LPSCO. That fails as a matter of fairness and as a  
3 matter of economic reality when compared to the Stern Review real world data.

4 **Q. WHAT WOULD BE THE INDICATED COST OF EQUITY USING THE**  
5 **STERN RATIO OF 1.67 AND STAFF'S RECOMMENDED COST OF DEBT**  
6 **OF 6.4 PERCENT?**

7 A. 10.69 percent (1.67 times 6.4 percent).

8 **Q. WHAT WOULD BE THE INDICATED COST OF EQUITY USING THE**  
9 **ARIZONA 2013 AVERAGE RATIO OF 1.57 AND STAFF'S**  
10 **RECOMMENDED COST OF DEBT OF 6.4 PERCENT?**

11 A. 10.05 percent (1.57 times 6.4 percent).

12 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE STERN SCHOOL**  
13 **ANALYSIS AND COMMISSION PRECEDENT ANALYSIS?**

14 A. These two analysis further bolster LPSCO's argument that the recommendations of  
15 the other parties in this case continue to fail the *Hope and Bluefield* comparable  
16 earnings standard. This is evident when the Stern School and Commission  
17 precedent imply ROE's of 10.69 percent and 10.05 percent when the other parties  
18 recommend 9.2 percent and 8.4 percent.

19 3. Dividend Payout Analysis

20 **Q. WILL LPSCO HAVE SUFFICIENT EARNINGS TO PAY DIVIDENDS AT**  
21 **A LEVEL COMPARABLE TO THE PUBLICLY TRADED WATER**  
22 **UTILITY COMPANIES IF STAFF'S RETURN ON EQUITY IS ADOPTED?**

23 A. No. In fact, the dividend payout ratio will need to exceed 90 percent of earnings;  
24 which far exceeds the 67 percent recent three historical average payout ratio for  
25 the publicly traded utilities. The projected 3-5 year average payout ratio is expected  
26 to be 62 percent.

1 Q. HAVE YOU PREPARED AN EXHIBIT TO SHOW THE COMPUTATIONS  
2 OF THE PAYOUT RATIOS?

3 A. Yes, and I have also included RUCO's because a similar problem exists under  
4 RUCO's recommended equity return, although to a lesser degree than Staff's. In  
5 Rebuttal Exhibit TJB-COC-RB1, Table 1 of the exhibit shows the computations  
6 using the Staff recommendations and Table 2 shows the computations using the  
7 RUCO recommendations. The payout ratio for Staff is 92 percent; the payout ratio  
8 for RUCO is 85 percent.

9 Q. WHAT WOULD THE RATE OF RETURN THAT IS APPLIED TO  
10 STAFF'S PROPOSED RATE BASE NEED TO BE IN ORDER FOR THE  
11 COMPANY TO BE COMPARABLE TO THE OTHER PUBLICLY  
12 TRADED WATER COMPANIES?

13 A. 10.62 percent. Let me explain. Using the amounts shown in Table 1, the  
14 derivation of the 10.62 percent would be as follows:

15		
16	[1] Equity Balance	\$55,220,328
17	[2] Book Dividend Rate	6.6%
18	[3] Required Dividend Payout Ratio	0.67
19	[4] Required Net Income [1] divided by [2] divided by [3]	\$5,439,614
20	[5] Interest Expense	\$565,461
21	[6] Required Operating Income [4] plus [5]	\$6,005,075
22	[7] Recommended Rate Base (water and wastewater)	\$56,544,104
23	[8] Required Return on Rate Base [6] divided by [7] times 100	10.62%
24		
25		
26		

1 Q. THE 10.62 PERCENT RETURN WOULD BE COMPARABLE TO THE  
2 WEIGHTED AVERAGE COST OF CAPITAL. CORRECT?

3 A. Yes, and based on a capital structure consisting of 84.1 percent equity and  
4 15.9 percent debt with a debt cost of 6.4%, the required equity return would need to  
5 be 11.42 percent. The computation is shown as follows:

6

	<u>Cost</u>	<u>Percent</u>	<u>Weighted Cost</u>
7 Long-term Debt	6.4%	15.9%	1.02%
8 Equity	11.42%	84.1%	9.60%
9			10.62%
10			

11 With respect to the RUCO recommendations, a similar analysis using the  
12 amounts shown in Table 2 would result in a required return on rate base of  
13 10.59 percent and a required equity return of 11.38 percent.

14 Q. BUT, MR. BOURASSA, ISN'T IT THE RATE BASE WE RECOGNIZE AS  
15 THE COMPANY'S INVESTMENT IN RATE MAKING?

16 A. Yes. Putting aside the importance of servicing all of a utility's invested capital in  
17 order to maintain its credit and attract capital, and determining the required  
18 earnings on rate base, then the required return on rate base must be 9.28 percent  
19 which translates to a cost of equity of 9.82 percent. Using the Staff recommended  
20 rate base from Table 1 instead of the equity balance as the starting point, the  
21 derivation of the 9.28 percent and the 9.82 percent would be as follows:

22

23 [1] Recommended Rate Base	\$56,544,104
24 [2] Percent equity	84.1%
25 [3] Equity portion funding rate base	\$47,553,591
26 [2] Book Dividend Rate	6.6%

[3] Required Dividend Payout Ratio	0.67
[4] Required Net Income [1] divided by [2] divided by [3]	\$4,684,383
[5] Interest Expense	\$565,461
[6] Required Operating Income [4] plus [5]	\$5,249,844
[7] Recommended Rate Base (water and wastewater)	\$56,544,104
[8] Required Return on Rate Base [6] divided by [7] times 100	9.28%

	<u>Cost</u>	<u>Percent</u>	<u>Weighted Cost</u>
Long-term Debt	6.4%	15.9%	1.02%
Equity	<b>9.82%</b>	84.1%	8.26%
			9.28%

Similarly, under the RUCO recommendations found in Table 2, the return required on rate base is 9.37 percent, which translates to a required equity return of 9.93 percent.

**Q. BASED ON YOUR PAYOUT RATIO ANALYSIS WHAT SHOULD BE THE RETURN ON EQUITY?**

**A.** It should be in the range of 9.8 percent to 11.4 percent; much higher than either the Staff or RUCO recommendation.

**Q. DOES A UTILITY HAVE TO SUPPORT ITS CAPITAL WITH ITS EARNINGS?**

**A.** Yes. All invested capital must be supported as each dollar of capital has an earnings requirement. Whether each dollar is recognized in rate base, it

1 nevertheless has capital costs. These costs must be absorbed by earnings from  
2 existing investments. As Dr. Morin states:

3  
4 The totality of a company's capital has to be serviced...  
5 Therefore, the allowed rate of return on common equity is  
6 applicable to the total common equity component of the total  
7 investments of the utility company. Anything less than that  
8 has the direct and immediate effect of reducing common  
9 equity return below the level needed to meet the capital  
10 attraction and the comparable earnings standards articulated  
11 in the Hope and Bluefield decisions. *To apply an allowed  
12 rate of return to a rate base that does not maintain the  
13 integrity of that capital does not enable the company to  
14 attract capital.*<sup>19</sup> (emphasis added)

15  
16 **Q. WHAT WOULD HAPPEN TO THE VALUE OF AN INVESTMENT IN**  
17 **LPSCO IF, USING THE STAFF RECOMMENDATIONS, IT PAID**  
18 **DIVIDENDS IN THE SAME PROPORTION OF EARNINGS AS THE**  
19 **PUBLICLY TRADED UTILITIES?**

20 **A.** The value of the equity investment in LPSCO would necessarily decrease.  
21 Under the Staff recommendations, the value of equity would decrease by over \$25  
22 million.

23 **Q. CAN YOU EXPLAIN THAT PLEASE, MR. BOURASSA?**

24 **A.** Yes. Using the figures in Table 1 of **Exhibit TJB-COC-RB1**, if LPSCO paid out  
25 67 percent of its net earnings, comparable to the publicly traded water utilities, it  
26 would pay dividends totaling about \$2,689,803 (Staff's net earnings income  
\$4,014,632 times 67 percent). This would translate to a dividend yield of only  
2.21 percent (\$2,689,803 cash divided by \$55,220,328 book equity divided by 2.2  
market-book ratio). However, investors expect a dividend yield of 3.0 percent  
according to Staff (*see* Staff Schedule JAC-3), so the value of an investment in

<sup>19</sup> Roger A. Morin, *New Regulatory Finance* at 497-498 (Public Utility Reports, Inc. 2006) ("Morin").

1 LPSCO would need to decrease to \$89,660,100 million (\$2,689,803 divided by  
2 3.0 percent) from a market value of \$121,484,722 (\$55,220,328 book equity times  
3 2.2 market-to-book ratio). In other words, LPSCO's investors will lose  
4 approximately \$31,824,622 of investment value (\$121,484,722 minus  
5 \$89,660,100), a loss of over a quarter of the value of their investment. The market-  
6 to-book ratios would immediately drop from the 2.2 of the publicly traded water  
7 utilities to 1.62 (\$89,660,100 divided by \$55,220,328).

8 **Q. WOULD THEIR BE A SIMILAR REDUCTION IN THE VALUE OF**  
9 **EQUITY UNDER THE RUCO RECOMMENDATIONS?**

10 A. Yes, but not as great. The point is that with the prospect of a devaluation of  
11 investment due to an equity return that is insufficient, investors are less likely to  
12 invest and the ability to attract capital is greatly diminished. Investors would invest  
13 in the publicly traded utility companies rather than a utility like LPSCO under such  
14 circumstances.

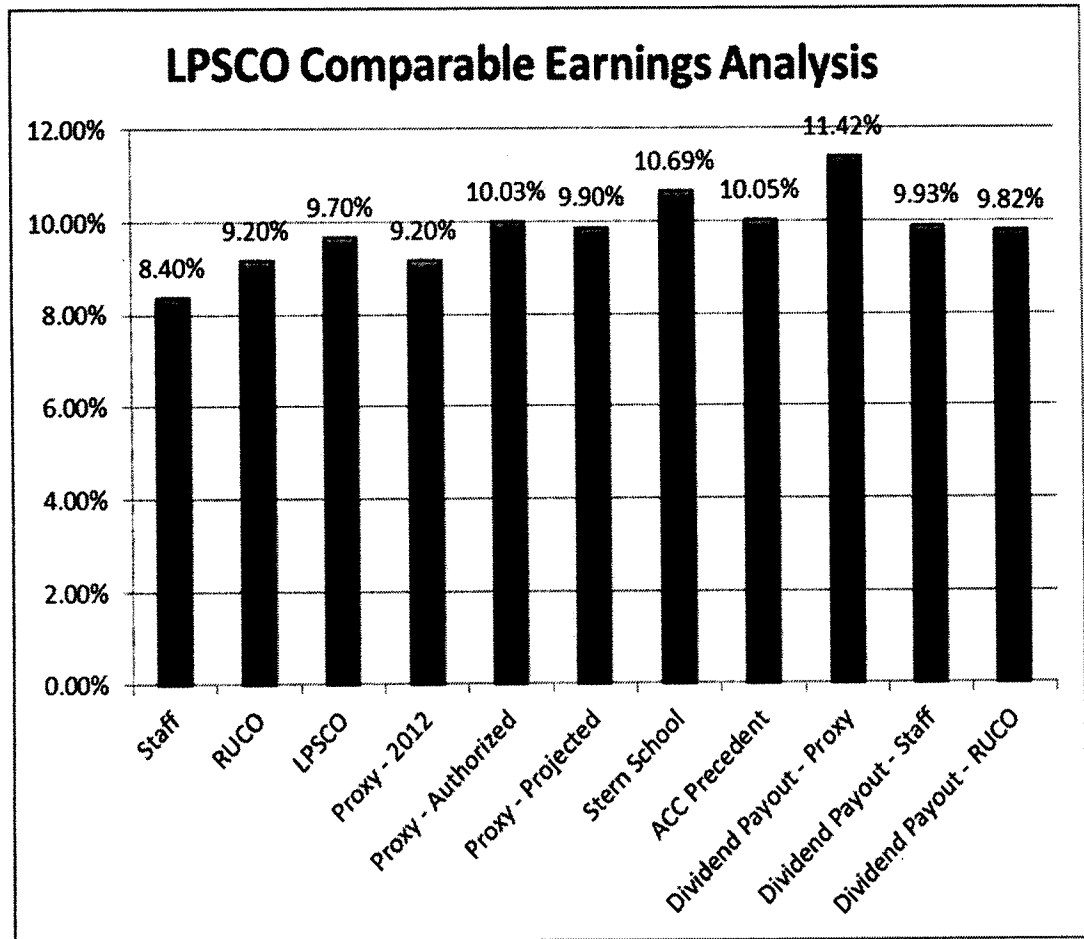
15 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE DIVIDEND**  
16 **PAYOUT ANALYSIS?**

17 A. This analysis further supports why the recommendations of the other parties  
18 continue to fail the *Hope and Bluefield* comparable earnings standard. It is a mixed  
19 message to compare LPSCO to a proxy group and then ask to LPSCO pay out  
20 dividends at a rate far greater than the publicly traded utilities in order to attract  
21 capital on the same terms or otherwise face a devaluation of the value of their  
22 investment.

23 **Q. PLEASE SUMMARIZE THE TOTALITY OF THE ROE COMPARISONS**  
24 **YOU COMPLETED.**

25 A. In short, I completed six separate analyses that illustrated from a broad high level  
26 that any way the data is cut, the recommendations of the parties fail the *Hope and*

1 *Bluefield* comparable earnings standard.<sup>20</sup> Below is a chart of the results of my  
2 analyses and the recommendations of all of the parties in this case.  
3



<sup>20</sup> Earned Proxy Group ROE, Authorized Proxy Group ROE, Projected Proxy Group ROE, Stern School Analysis, Commission Precedent and Dividend Payout Analysis.

1                   4.     Other Comments on Staff's Testimony

2                   a.     Market-to-Book Ratio Should be 1.0

3  
4     **Q.     PLEASE COMMENT ON MR. CASSIDY'S DISCUSSION (AT PAGE 21 OF**  
5     **HIS DIRECT TESTIMONY) REGARDING THE FINANCIAL**  
6     **IMPLICATIONS OF A MARKET-TO-BOOK RATIO OF GREATER**  
7     **THAN 1.0.**

8     **A.**     There are a number of reasons investors may bid up market prices for stocks above  
9     book values other than an expectation that a water utility will earn more than its  
10    cost of equity. One reason is that investors may expect a city or some other public  
11    entity to condemn all or part of a water utility, meaning the municipality will  
12    acquire the assets at the fair market value. Water utilities typically have assets that  
13    have a value based on reproduction cost that is well in excess of book value, and  
14    investors would be aware that a condemnation award may be well in excess of  
15    book values, even if the utility earns no more than its cost of equity.

16               Second, investors may anticipate a merger or acquisition that produces  
17    premium prices. With such anticipated sale prices well above book values, a water  
18    utility would also be priced above book value even if the water utility made no  
19    more than its cost of equity. There are other reasons as well. These include  
20    (1) public utility commissions do not issues orders simultaneously in all  
21    jurisdictions, (2) not all of a company's earnings are regulated, (3) regulatory  
22    expenses, revenue and rate base adjustments may cause accounting returns to differ  
23    from those calculated on a rate case basis, (4) actual sales do not equal sales  
24    assumed in a rate case, (5) market expected ROEs change frequently while rate-  
25    case authorized ROEs do not, and (6) regulated subsidiaries constitute only a piece  
26    of a holding company pie.

1           The argument that utilities are earning more than their cost of capital  
2 because the market-to-book ratio is greater than 1.0 is superficial. It is also  
3 superficial to state, as Mr. Cassidy does, that one would expect market forces to  
4 move the stock price lower, close to a market-to-book ratio of 1.0, to reflect  
5 investor expectations of reduced expected future cash flows. His statement ignores  
6 all of the things of importance to investors and why it is reasonable to expect  
7 market-to-book ratios to exceed 1.0 even if water utilities are expected to earn no  
8 more than their costs of equity. If regulators were to force the market-to-book  
9 ratios to 1.0 by intentionally lowering the allowed returns, such action would place  
10 utilities at a disadvantage in competing for investment capital with industrials and  
11 other unregulated companies, whose stock trade well above book value.

12                           b.     Staff's Financial Risk Adjustment & Economic Assessment  
13                           Adjustment

14   **Q.   PLEASE COMMENT ON STAFF'S FINANCIAL RISK ADJUSTMENT.**

15   A.   Staff recommends a 60 basis point reduction in the cost of equity to reflect the  
16 lower financial risk of LPSCO's 84 percent equity capital structure.<sup>21</sup> However,  
17 Staff's financial risk adjustment is overstated because Staff uses book values in its  
18 estimation of the financial risk adjustment. Based upon the correct use of the  
19 Hamada approach using market values, Staff's financial risk adjustment should be  
20 no more than 20 basis points. Simply correcting Staff's financial risk adjustment  
21 for the use of market values rather than book values, Staff's ROE should be 8.8  
22 percent not 8.4 percent.

23  
24  
25  
26                           

---

<sup>21</sup> Cassidy Dt. at 3.

1 **Q. PLEASE EXPLAIN IN MORE DETAIL WHY STAFF'S FINANCIAL RISK**  
2 **ADJUSTMENT IS OVERSTATED.**

3 A. Staff's financial risk adjustment is overstated because Staff uses book values rather  
4 than conceptually correct market values for debt and equity in calculating the risk  
5 adjustment using the Hamada formula. Professor Hamada developed his equation  
6 using market values, not recorded book costs.<sup>22</sup> This is logical given that the  
7 Hamada formula is an extension of the CAPM, which is a market-based model that  
8 does not consider book or accounting data. The critical component, beta, is an  
9 estimate of a security's risk based on its volatility relative to the market as a whole.  
10 Therefore, it would makes no sense to un-lever and re-lever the sample group's  
11 average beta to account for the effect of financial leverage using book equity, as  
12 Staff has done in this case. In fact, numerous authorities state that market values  
13 must be used in estimating the effect of leverage on a security's risk.<sup>23</sup>

14 **Q. DO YOU HAVE OTHER CONCERNS THAT COULD RESULT IN THE**  
15 **OVERSTATEMENT OF THE FINANCIAL RISK ADJUSTMENT?**

16 A. The beta used in the Hamada formula is the average beta of Staff's sample publicly  
17 traded water utilities. LPSCO is a riskier investment than any of the sample  
18 utilities. Consequently, it would have a higher beta than the average of the sample  
19 group. Assuming LPSCO has the same beta as the publicly traded water utilities  
20 overstates the adjustment.

23 <sup>22</sup> "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*,  
24 Vol. 27 No. 2 (May 1972) 435 – 453.

25 <sup>23</sup> See, e.g., Morin at 223-224; Richard A. Brealey, Stewart C. Myers and Franklin Allen, *Principles of*  
26 *Corporate Finance* 516-20 (McGraw Hill/Irwin 8th ed. 2006); Tim Koller, Marc Goedhart and David  
Wessels, *Valuation: Measuring and Managing the Value of Companies* 312-13 (John Wiley & Sons, Inc.  
4th ed. 2005); Shannon, P. Pratt, *Cost of Capital – Estimations and Applications* 83-85 (John Wiley &  
Sons 2nd ed. 2002);

1   **Q.   PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT.**

2   A.   I can't, at least not in any meaningful way. Staff does not explain the basis for this  
3       adjustment in its testimony.<sup>24</sup> There is no analysis, study or authoritative reference  
4       upon which Mr. Cassidy's judgment rests for me to consider. Of course, I agree  
5       with Staff that the current economic environment supports increased ROEs.  
6       Interest rates have risen in the past year and are expected to increase as the Fed  
7       curtails its easy money policies. That said, I have just never seen an adjustment of  
8       this type from Staff or anyone else until recently. When economic conditions were  
9       far worse a few years ago, Staff never advanced an EAA. I am left a bit perplexed  
10      by the whole thing, but my skepticism, and the fact that the EAA has popped into  
11      existence out of nowhere, lead me to conclude that it is an ill-considered band-aid  
12      to cover up an unreasonably low ROE. Recall that without the EAA, Staff's ROE  
13      model would be only 7.8 percent (8.4 percent average of Staff's models less  
14      financial risk adjustment of 60 basis points).<sup>25</sup> A 7.8 percent return on equity is an  
15      a return that would be worse than LPSCO's current 8.01 percent; which to my  
16      knowledge is still the lowest authorized ROE in the country.

17   **E.   Responses to Staff's Criticisms of the Company's Cost of Capital Analysis**

18   **Q.   PLEASE COMMENT ON TO MR. CASSIDY'S TESTIMONY (AT PAGE**  
19       **46) CRITICIZING YOU FOR CONSIDERING THE DIFFERENCES IN**  
20       **RISK DUE TO THE SIZE OF LPSCO COMPARED TO THE PUBLICLY**  
21       **TRADED SAMPLE UTILITIES.**

22   A.   Mr. Cassidy does not dispute that smaller companies are more risky than larger  
23       companies. Staff simply opines that the Commission has not allowed a risk  
24       premium for size in the past.<sup>26</sup>

25       <sup>24</sup> Cassidy Dt. at 37.

26       <sup>25</sup> *Id.* at 36.

<sup>26</sup> *Id.* at 46.

1 **Q. WHY DOES SIZE MATTER IN THE ANALYSIS OF A UTILITY'S COST**  
2 **OF CAPITAL?**

3 A. There are many reasons why smaller utilities are more risky than larger utilities.  
4 I have discussed these reasons extensively in my direct testimony and will not  
5 repeat that testimony here.<sup>27</sup> The simple fact is that a rational investor is not going  
6 to view an equity investment in LPSCO as having the same risk as the purchase of  
7 publicly traded stock in a substantially larger utility such as Aqua America,  
8 American States Water or California Water Service. That does not mean we can't  
9 use the sample companies as proxies, it means we can't ignore the plethora of  
10 evidence that firm size does matter. If the differences in risk between small  
11 utilities like LPSCO and the large, publicly traded water utilities used to estimate  
12 the cost of equity are ignored, LPSCO's equity cost will be understated and  
13 unreasonable.

14 **Q. IS FIRM SIZE A UNIQUE RISK?**

15 A. No. The firm size is a systematic risk factor.<sup>28</sup> We know that based on empirical  
16 financial data that the firm size phenomenon is real. The *Duff & Phelps* study data  
17 upon which the build-up method I employ in the instant case is just one example.  
18 Moreover, we know that the capital asset pricing model is incomplete and does not  
19 fully account for the higher returns that are needed on small company stocks.  
20 In other words, the higher risks associated with smaller firms is not fully accounted  
21 for by beta.

22  
23  
24  
25 <sup>27</sup> Bourassa COC Dt. at 21-26, 43-45.

26 <sup>28</sup> Shannon P. Pratt and Roger J. Grabowski. *Cost of Capital: Applications and Examples, Fourth Edition*.  
John Wiley and Sons, 2010. p. 56.

1 With respect to the relationship between firm size and return, *Morningstar*  
2 states:

3 One of the most remarkable discoveries of modern finance  
4 is that of a relationship between firm size and return.  
5 The relationship cuts across the entire size spectrum but is  
6 most evident among smaller companies which have higher  
returns than larger ones. Many studies have looked at the  
effect of firm size and return...<sup>29</sup>

7 With respect to the CAPM, *Morningstar* states:

8 The firm size phenomenon is remarkable in several ways.  
9 First, the greater risk of small stocks does not, in the context  
10 of the capital asset pricing model (CAPM), fully account for  
their higher returns over the long term. In the CAPM only  
11 systematic, or beta risk, is rewarded; small company stocks  
have had returns in excess of those implied by their betas.<sup>30</sup>

12  
13 **Q. IS THERE A QUANTIFIABLE DIFFERENCE IN RISK BETWEEN LPSCO**  
14 **AND THE PUBLICLY TRADED WATER COMPANIES?**

15 A. Yes. Business risk, or the uncertainty of earnings, is a direct reflection of the  
16 factors I have discussed in my direct testimony. The quantitative measure for  
17 business risk is called the co-efficient of variance of earnings.

18 The co-efficient of variance of earnings is a reflection of the distributions of  
19 earnings. It is meaningful when measured against the distribution of earnings of  
20 alternative investments, like the water utilities in my water proxy group. The co-  
21 efficient of variance of earnings can be quantified using a relatively simple  
22 formula:<sup>31</sup>

23  
24  
25 <sup>29</sup> Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook*, at 85.

26 <sup>30</sup> *Id.* at 87.

<sup>31</sup> Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994. p.89.

1 [1] Co-efficient of Variance of Earnings = Standard Deviation of Operating  
2 Income<sup>32</sup>/Mean of Operating Income.

3  
4 Using this measure, the greater the co-efficient of variance of earnings, the greater  
5 the risk to investors of not receiving expected returns.<sup>33</sup> Below are the computed  
6 co-efficient of variance of earnings results using the most recent five (5) years of  
7 historical data for my water proxy group and LPSCO:

		Business Risk Co-efficient of variance of earnings
<u>Company</u>	<u>Symbol</u>	
American States	AWR	0.282
Aqua America	WTR	0.144
California Water	CWT	0.055
Connecticut Water	CTWS	0.211
Middlesex	MSEX	0.127
SJW Corp.	SJW	0.171
Average of Water Utilities		0.165
LPSCO		1.203

18  
19 **Q. WHAT DO THESE RESULTS SHOW?**

20 A. What these results show is that when using the co-efficient of variance of earnings  
21 as a measure of business risk, LPSCO carries over seven (7) times the risk  
22 compared to the average water utility in my proxy group (1.203 divided by 0.165).  
23 Investors consider the variability of earnings when pricing stocks. Consider the  
24 heavy reporting of earnings from the various reporting institutions and publications

25  
26 <sup>32</sup> Operating income is defined as earnings before interest and taxes (EBIT).

<sup>33</sup> Tuller at 89.

1 and reaction to those earnings reports by investors, which are reflected in market  
2 stock prices. This metric alone would lead one to conclude that the market beta for  
3 LPSCO, if it were publicly traded, would be much higher than the water proxy  
4 group. A higher beta would lead to a higher cost of equity.

5 **Q. MR. CASSIDY ALSO CRITICIZES YOU (ON PAGE 39 OF HIS DIRECT**  
6 **TESTIMONY) FOR RELYING EXCLUSIVELY ON ANALYSTS**  
7 **FORECASTS OF GROWTH IN THE DCF MODEL. IS THIS TRUE?**

8 A. No. I rely on both historical growth rates and forecasts of growth. I just give more  
9 weight to the analyst forecasts of growth. It is important to note that Mr. Cassidy  
10 disagrees with the additional weight I give the analyst forecasts, but he is not  
11 saying these forecasts have no merit, nor did I rely solely on analyst forecasts of  
12 growth. The dispute between Mr. Cassidy and me comes down to something  
13 between 50 percent and my "greater" emphasis. In my direct testimony, I  
14 explained why a weight greater than 50 percent should be given to analysts'  
15 estimates.<sup>34</sup>

16 **Q. ARE ANALYSTS' FORECASTS OF GROWTH "OVERLY OPTIMISTIC"?**

17 A. Not according to the Gordon, Gordon and Gould who found that analyst estimates  
18 are the best proxies for DCF growth when estimating the cost of equity for utilities  
19 using the DCF.<sup>35</sup> But the level of accuracy of analysts' forecasts is an after-the-fact  
20 evaluation with little relevance to the issues at hand here. As Dr. Morin explains:

21 Because of the dominance of institutional investors and their  
22 influence on individual investors, analysts' forecasts of long-  
23 run growth rates provide a sound basis for estimating required  
24 returns. Financial analysts exert a strong influence on the  
25 expectations of many investors who do not possess the  
26 resources to make their own forecasts, that is, they are a cause  
of g. *The accuracy of these forecasts in the sense of whether*

---

<sup>34</sup> Bourassa COC Dt. at 33.

<sup>35</sup> *Id.*

1           *they turn out to be correct is not at issue here, as long as they*  
2           *reflect widely held expectations. As long as the forecasts are*  
3           *typical and/or influential in that they are consistent with*  
4           *current stock price levels, they are relevant. The use of*  
5           *analysts' forecasts in the DCF model is sometimes denounced*  
6           *on the grounds that it is difficult to forecast earnings and*  
7           *dividends for only one year, let alone for longer time periods.*  
8           *This objection is unfounded, however, because it is present*  
9           *investor expectations that are being priced; it is the*  
10           *consensus forecast that is embedded in price and therefore in*  
11           *required return, and not the future as it will turn out to be.*  
12           *(emphasis added.)*<sup>36</sup>

13           What really matters is that analysts' forecasts strongly influence investors  
14           and hence the market prices they are willing to pay for stocks. Analysts' growth  
15           rates influence the prices investors will pay for stocks and thus impact the dividend  
16           yields. The dividend yields change until the sum of the dividend yield plus the  
17           growth rate equals investors' perceived cost of equity. Had the growth forecasts  
18           been lower – as Mr. Cassidy suggests they should be – the stock prices would be  
19           lower and dividend yields would be higher, but there would not necessarily be any  
20           difference in the ultimate estimate of the cost of equity.

21           **Q. HAS MR. CASSIDY OFFERED ANY EVIDENCE THAT INVESTORS DO**  
22           **NOT RELY ON ANALYST ESTIMATES?**

23           **A.** No. Nor does he offer any evidence of the extent investors rely on historical  
24           growth or on analyst estimates of future growth. Mr. Cassidy offers no quantitative  
25           or conceptual argument to rebut the conclusions of Gordon, Gordon, and Gould  
26           (cited in my direct<sup>37</sup>), and offers no evidence that any of the measures of past  
              growth he has used – historical EPS, historical DPS, historical sustainable growth –

---

<sup>36</sup> Morin at 298.

<sup>37</sup> Bourassa COC Dt. at 33.

1 provide a better forecast of future growth for utilities than analysts' estimates of  
2 growth.

3 **Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 43 OF**  
4 **HIS DIRECT) THAT USE OF THE HISTORICAL STOCK PRICE**  
5 **GROWTH IS AN INAPPROPRIATE PROXY FOR THE GROWTH RATE**  
6 **IN THE DCF MODEL.**

7 A. As I explained in my direct testimony (at page 33), using the historical growth in  
8 the stock price is reasonable because investors know that, in equilibrium, common  
9 stock prices, BVPS, EPS and DPS will all grow at the same rate. Investors would  
10 take information about changes in stock prices into account when they price  
11 utilities' stocks. As I hope Mr. Cassidy would acknowledge, the traditional DCF  
12 model assumes that the stock price, book value, dividends, and earnings all grow at  
13 the same rate. This has not been historically true for the sample water utility  
14 companies.<sup>38</sup> So, using the historical growth in stock prices is an appropriate proxy  
15 measure for growth.

16 **Q. DO YOU HAVE EVIDENCE THAT THE GROWTH FORECASTS USED**  
17 **BY STAFF ARE SIGNIFICANTLY UNDERSTATED?**

18 A. Yes. The 3-year historical annualized total return for the water utility stocks  
19 reported by *Value Line* (October 18, 2012) is 12.85 percent.<sup>39</sup> This indicated return  
20 would imply a growth rate for the DCF model of 9.85 percent.<sup>40</sup> Compare this to  
21 Staff's 5.0 percent growth rate. Even the growth rate based on analyst estimates  
22

23  
24 <sup>38</sup> *Id.* at 31.

25 <sup>39</sup> A stock's total return is the percentage increase in the value of a shareholder's investment, assuming  
26 reinvestment of all dividends and adjusted for any stock splits.

<sup>40</sup> Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony (at page 31) yields  $g = k - D_1/P_0$ . Substituting Staff's dividend yield of 3.0 for  $D_1/P_0$  and the 12.85 percent for  $k$  we get:  $k = 9.85 - 12.85 - 3.0$ .

1 that I use of 6.13 percent falls far short of the implied growth rate investors have  
2 realized over the past 3 years.

3 Even my DCF cost of equity estimates using exclusively analyst's forecasts  
4 of growth from approximately three years ago would not have predicted the  
5 annualized return of 12.85 percent for the publicly traded utilities. In the Sahuarita  
6 Water Company rate case (Docket No. W-03718-09-0359), my DCF estimate using  
7 exclusively analyst estimates of growth was 10.8 percent.<sup>41</sup> But my 10.8 percent  
8 was far more accurate than Staff's 8.9 percent constant growth DCF estimate in  
9 that case.<sup>42</sup> In other words, even when using forecasts of earnings growth, the  
10 indicated cost of equity can vastly understate the cost of equity.

11 **Q. DOESN'T MR. CASSIDY USE 3-5 YEAR PRICE APPRECIATION**  
12 **POTENTIAL AS A GROWTH PROXY FOR THE DCF WHEN**  
13 **ESTIMATING THE CURRENT MARKET RISK PREMIUM FOR HIS**  
14 **CAPM?**

15 **A.** Yes.<sup>43</sup> Mr. Cassidy refers to the Value Line projected 3-5 year per share growth in  
16 his testimony (at pages 31 and 32), which is Value Line's 3-5 year stock price  
17 appreciation. Mr. Cassidy is criticizing me for something he does in his own  
18 analysis.

19  
20  
21  
22  
23  
24  
25 <sup>41</sup> See Sahuarita Water Company Rejoinder Schedule D-4.8, Sahuarita Water Company, Docket No. W-  
03718A-09-0359.

26 <sup>42</sup> See Staff Surrebuttal Schedule JCM-3, Sahuarita Water Company, Docket No. W-03718A-09-0359.

<sup>43</sup> Cassidy Dt. at 31-32.

1 Q. DID YOU USE AVERAGE STOCK PRICES TO CALCULATE THE  
2 DIVIDEND YIELD ON SCHEDULE D-4.7 OF YOUR DIRECT  
3 TESTIMONY AS MR. CASSIDY CLAIMS (PAGE 45 OF HIS  
4 TESTIMONY)?

5 A. No. I used the spot price on February 15, 2013. That said, the use of an average  
6 stock price may be appropriate depending on the circumstances.

7 Q. MR. CASSIDY ALSO CRITICIZES YOU (ON PAGE 45 OF HIS  
8 TESTIMONY) FOR USING A FORECASTED INTEREST RATE FOR THE  
9 RISK-FREE RATE IN YOUR CAPM. PLEASE RESPOND.

10 A. I use both a current interest rate as well as forecasted interest rates on 30 year  
11 U.S. Treasury Bonds as a proxy to my risk-free rate for the CAPM. Like analysts'  
12 forecasts of growth, I believe investors rely on this information. If investors did  
13 not rely on this information, *Value Line*, *Blue Chip* and others would not provide  
14 this information. Mr. Cassidy provides no evidence that investors do not rely on  
15 this information, nor does he provide any support for his claim that the use of a  
16 forecasted interest rate only serves to overstate the cost of equity.

17 Q. ANY FINAL THOUGHTS?

18 A. Yes. The bottom line to me is that Staff witnesses input data into the DCF and  
19 CAPM models mechanically without considering the reasons for using those  
20 inputs. And Staff's inputs have long been skewed in an effort to keep down the  
21 cost of equity and the low results of their models bear this out. Dr. Licon discusses  
22 this extensively in his testimony. Finally, as another more local reasonableness  
23 test, I examined the returns on equity currently authorized for Southwest Gas and  
24 Arizona Public Service Company. Both of these publicly traded companies have  
25 beta's approximately the same as the average beta of Staff's water proxy group.  
26 As reported by AUS Utility Reports (October 2013), Southwest Gas and Pinnacle

1 West Capital Corp., the parent of Arizona Public Service Company, have  
2 authorized returns of 10.2 percent and 11 percent, respectively. These companies  
3 have betas of .75 and .70, respectively, which are similar to the average beta of  
4 Staff's water proxy group of .71. Since only market risk as measured by beta  
5 matters to Mr. Cassidy, then why are these two companies allowed to earn 180 to  
6 260 basis points more than he recommends for LPSCO? An investor would be  
7 better off investing in these two companies rather than LSPCO from that stand  
8 point; never mind the fact that the investor could sell his stock on Southwest or  
9 APS in minutes if he was unhappy with his/her return.

10 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF**  
11 **CAPITAL?**

12 **A.** Yes, although my silence on any of the issues, matters or findings addressed in the  
13 testimony of Staff and/or RUCO does not constitute my acceptance of their  
14 positions on such issues, matters or findings.

**EXHIBIT**  
**TJB-COC-RB1**

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Dividend Payout Ratio Analysis**

**Table 1 – Staff Recommendations and Actual Equity in Capital Structure**

[1]	Total Capital	\$65,660,319
[2]	% Equity Staff recommendation	84.10%
[3]	Book Value of Equity [1] x [2]	\$55,220,328
[4]	Expected Dividend Yield per Staff Schedule JAC-3	3.00%
[5]	Current market-to-book ratio publicly traded water utilities	2.2
[6]	Book Value Dividend Yield [4] x [5]	6.60%
[7]	Cash Dividend [3] x [6]	\$3,644,542
[8]	Staff Recommended Operating Income (W and WW)	\$4,580,073
[9]	Less: Annual Interest Expense - Staff Synchronized	\$565,441
[10]	Earnings Available for Dividends [8] - [9]	\$4,014,632
[11]	Less: Dividends [7]	\$3,644,542
[12]	Retained Earnings [10] - [11]	\$370,090
[13]	Pay-out ratio [11]/[10]	91%

**Table 2 – RUCO Recommendations and Actual Equity in Capital Structure**

[1]	Total Capital	\$65,660,319
[2]	% Equity RUCO recommendation	84.13%
[3]	Book Value of Equity [1] x [2]	\$55,240,319
[4]	Expected Dividend Yield per Company D-4.7 <sup>1</sup>	3.19%
[5]	Current market-to-book ratio publicly traded water utilities	2.15
[6]	Book Value Dividend Yield [4] x [5]	6.86%
[7]	Cash Dividend [3] x [6]	\$ 3,789,203
[8]	RUCO Recommended Operating Income (W and WW)	\$5,052,943
[9]	Less: Annual Interest Expense - RUCO Synchronized	\$623,073
[10]	Earnings Available for Dividends [8] - [9]	\$4,429,870
[11]	Less: Dividends [7]	\$3,789,203
[12]	Retained Earnings [10] - [11]	\$640,667
[13]	Pay-out ratio [11]/[10]	86%

<sup>1</sup> RUCO did not prepare a cost of capital analysis so the LPSCO cost of capital indicated dividend yield is used. A dividend yield of 3.19 percent as shown is approximately equal to RUCO indicated dividend yield of the RUCO proxy group of 3.2 percent in the recent Rio Rico Utilities rate case (Docket N. WS-02679A-12-0196).

**LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY  
UTILITIES**

**THOMAS BOURASSA  
REBUTTAL TESTIMONY**

**OCTOBER 23, 2013**

**COST OF CAPITAL  
REBUTTAL SCHEDULE D**

**Litchfield Park Service Company dba Liberty Utilities**

Test Year Ended December 31, 2012

Summary of Cost of Capital

Exhibit  
Rebuttal Schedule D-1  
Page 1  
Witness: Bourassa

Consolidated Capital Structure of Water and Wastewater Division

		<u>Adjusted End of Test Year</u>			<u>Projected Capital Structure</u>		
Line No.	Item of Capital	Dollar Amount	Percent of		Dollar Amount	Percent of	
			Total	Cost Rate		Total	Cost Rate
1	Long-Term Debt	10,420,000	15.87%	6.40%	10,120,000	15.11%	6.40%
2							
3	Stockholder's Equity	55,240,319	84.13%	9.93%	56,876,546	84.89%	9.93%
4							
5	Totals	65,660,319	100.00%	9.37%	66,996,546	100.00%	9.40%

SUPPORTING SCHEDULES:

Testimony

RECAP SCHEDULES:

**Litchfield Park Service Company dba Liberty Utilities**  
**Summary of Results**

**Exhibit**  
**Rebuttal Schedule D-4.1**  
**Witness: Bourassa**

<u>Line</u> <u>No.</u>	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
1				
2				
3				
4				
5				
6	DCF Constant Growth Estimates <sup>1</sup>	8.6%	9.3%	9.0%
7				
8	CAPM Estimates <sup>2</sup>	8.8%	11.0%	9.9%
9				
10	Build-up Method <sup>3</sup>	8.7%	12.6%	10.6%
11				
12	Average of midpoint estimates	8.7%	11.0%	9.8%
13				
14				
15	Financial Risk Adjustment <sup>4</sup>	-0.6%	-0.6%	-0.6%
16				
17	Small Company Risk Premium <sup>5</sup>	0.5%	0.5%	0.5%
18				
19	Indicated Cost of Equity	8.6%	10.9%	9.7%
20				
21				
22				
23	Recommended Cost of Equity			9.7%
24				
25				

<sup>1</sup> See Rebuttal Schedule D-4-8

<sup>2</sup> See Rebuttal Schedule D-4.12

<sup>3</sup> See Rebuttal Schedule D-4.18

<sup>4</sup> See Rebuttal Schedule D-4.21, Testimony

<sup>5</sup> See Rebuttal Schedule D-4.22, Testimony

**Litchfield Park Service Company dba Liberty Utilities**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**  
**Rebuttal Schedule D-4.2**  
 Witness: Bourassa

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	1. American States	59%	\$ 477.2	\$ 946.7	A+	A2	9.99
2	2. Aqua America	96%	\$ 777.7	\$ 4,025.1	AA-	NR	10.29
3	3. California Water	100%	\$ 565.7	\$ 1,490.3	AA-	NR	9.99
4	4. Connecticut Water	100%	\$ 86.2	\$ 455.4	A	NR	9.75
5	5. Middlesex	88%	\$ 115.6	\$ 440.8	A	NR	10.15
6	6. SJW Corp.	96%	\$ 269.2	\$ 844.4	A	NR	9.99
11	Average	90%	\$ 381.9	\$ 1,367.1			10.03
13	Litchfield Park Service Company dba Liberty Utilities	68%	\$ 21.5	\$ 135.4	NR	NR	
14	(Adjusted as of December 31, 2012)						

<sup>1</sup>AUS Utility Reports (October 2013).

**Litchfield Park Service Company dba Liberty Utilities  
Capital Structures**

**Exhibit  
Rebuttal Schedule D-4.3**  
Witness: Bourassa

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term <u>Debt</u>	Common <u>Equity</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>
1	1. American States	42.1%	57.9%	23.8%	76.2%
2	2. Aqua America	51.7%	48.3%	25.6%	74.4%
3	3. California Water	44.5%	55.5%	30.9%	69.1%
4	4. Connecticut Water	49.0%	51.0%	33.8%	66.2%
5	5. Middlesex	42.4%	57.6%	28.6%	71.4%
6	6. SJW Corp.	53.1%	46.9%	36.8%	63.2%
7					
8					
9					
10					
11	Average	47.1%	52.9%	29.9%	70.1%
12					
13	Litchfield Park Service Company dba Liberty Utilities	15.9%	84.1%	N/A	N/A
14	(Proforma)				
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

<sup>1</sup> Value Line Analyzer Data (October 14, 2013)

<sup>2</sup> Adjusted Per Schedule D-1

**Litchfield Park Service Company dba Liberty Utilities**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rebuttal Schedule D-4.4**  
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

**Five-year historical average annual changes**

Company	Price <sup>1</sup>	Book Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>
1. American States	7.59%	5.50%	11.50%	4.50%
2. Aqua America	3.63%	6.00%	7.50%	7.50%
3. California Water	0.69%	4.50%	5.50%	1.50%
4. Connecticut Water	7.74%	4.50%	6.50%	2.00%
5. Middlesex	4.44%	4.00%	2.50%	1.50%
6. SJW Corp.	NMF	3.50%	NMF	4.00%

GROUP AVERAGE  
 GROUP MEDIAN

Average  
 Future Growth<sup>3</sup>  
 3.33%  
 7.73%  
 6.25%  
 5.33%  
 3.35%  
 10.75%

Average of  
 Future and  
 Historical  
 Growth  
 Col 5-6  
 5.30%  
 6.95%  
 4.65%  
 5.26%  
 3.23%  
 7.25%

<sup>1</sup> Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, October 14, 2013

<sup>3</sup> See Rebuttal Schedule D-4.6.

**Litchfield Park Service Company dba Liberty Utilities**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rebuttal Schedule D-4.5**  
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	Company	Price <sup>1</sup>	Book Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>	Average Future Growth <sup>3</sup>	Average of Future and Historical Growth
1	1. American States	9.71%	5.00%	6.50%	3.00%	3.33%	4.69%
2	2. Aqua America	6.42%	8.50%	7.00%	7.50%	7.73%	7.54%
3	3. California Water	5.72%	5.00%	5.00%	1.00%	6.25%	5.21%
4	4. Connecticut Water	3.13%	4.50%	1.50%	1.50%	5.33%	4.00%
5	5. Middlesex	4.42%	4.50%	3.50%	1.50%	3.35%	3.42%
6	6. SJW Corp.	5.50%	5.50%	4.00%	5.00%	10.75%	7.87%
7							
8							
9							
10							
11							
12							
13							
14							
15	GROUP AVERAGE	5.82%	5.50%	4.58%	3.25%	6.13%	5.46%
16	GROUP MEDIAN	5.61%	5.00%	4.50%	2.25%	5.79%	4.95%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

<sup>1</sup> Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, October 14, 2013.

<sup>3</sup> See Rebuttal Schedule D-4.6.

Litchfield Park Service Company dba Liberty Utilities  
Analysts Forecasts of Earnings Per Share Growth

Exhibit  
Rebuttal Schedule D-4.6  
Witness: Bourassa

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

		[1]	[2]	[3]	[4]
ESTIMATES OF EARNINGS GROWTH					
Company	Reuters <sup>1</sup>	Yahoo <sup>1</sup>	Line <sup>1</sup>	Value	Average Growth (G) (Cols 1-3) <sup>2</sup>
1. American States	2.00%	2.00%	6.00%		3.33%
2. Aqua America	7.40%	5.80%	10.00%		7.73%
3. California Water		6.00%	6.50%		6.25%
4. Connecticut Water	5.00%	5.00%	6.00%		5.33%
5. Middlesex		2.70%	4.00%		3.35%
6. SJW Corp.		14.00%	7.50%		10.75%
GROUP AVERAGE	4.80%	5.92%	6.67%		6.13%
GROUP MEDIAN					5.79%

<sup>1</sup> Data as of October 14, 2013  
<sup>2</sup> Where no data available or single estimate, average of other utilities assumed to estimate for utility.

**Litchfield Park Service Company dba Liberty Utilities**  
**Current Dividend Yields for Water Utility Sample Group**

**Exhibit**  
**Rebuttal Schedule D-4.7**  
 Witness: Bourassa

Line  
 No.

<u>Company</u>	<u>Current Stock Price (P<sub>0</sub>)<sup>1</sup></u>	<u>Current Dividend (D<sub>0</sub>)<sup>1</sup></u>	<u>Current Dividend Yield (D<sub>0</sub>/P<sub>0</sub>)<sup>1</sup></u>	<u>Average Annual Dividend Yield (D<sub>0</sub>/P<sub>0</sub>)<sup>1,2</sup></u>
1. American States	\$ 27.50	\$ 0.82	2.98%	3.20%
2. Aqua America	\$ 24.60	\$ 0.62	2.52%	2.85%
3. California Water	\$ 20.20	\$ 0.67	3.32%	3.36%
4. Connecticut Water	\$ 31.81	\$ 0.99	3.11%	3.62%
5. Middlesex	\$ 21.09	\$ 0.76	3.60%	4.02%
6. SJW Corp.	\$ 28.71	\$ 0.74	2.58%	2.94%
<b>Average</b>			3.02%	3.33%
<b>Median</b>			3.05%	3.28%

<sup>1</sup> Value Line Analyzer Data. Stock prices as of October 14, 2013.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

**Litchfield Park Service Company dba Liberty Utilities**  
**Discounted Cash Flow Analysis**  
**DCF Constant Growth**

**Exhibit**  
**Rebuttal Schedule D-4.8**  
**Witness: Bourassa**

Line No.	[1] Average Spot Dividend Yield $(D_0/P_0)^1$	[2] Expected Dividend Yield $(D_1/P_0)^2$	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	DCF - Past and Future Growth	3.02%	5.44% <sup>3</sup>	8.6%
10	DCF - Future Growth	3.02%	6.13% <sup>4</sup>	9.3%
13	Average	3.02%	5.78%	9.0%

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Rebuttal Schedule D-4.7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

<sup>4</sup> Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

Litchfield Park Service Company dba Liberty Utilities  
Market Betas

Exhibit  
Rebuttal Schedule D-4.9  
Witness: Bourassa

Line No.	Company	Beta ( $\beta$ ) <sup>1</sup>
1	1. American States	0.70
2	2. Aqua America	0.60
3	3. California Water	0.65
4	4. Connecticut Water	0.75
5	5. Middlesex	0.70
6	6. SJW Corp.	0.85
7		
8		
9	Average	0.71
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

<sup>1</sup> Value Line Investment Analyzer data (October 14, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Litchfield Park Service Company dba Liberty Utilities**  
**Forecasts of Long-Term Interest Rates**  
**2012-14**

**Exhibit**  
**Rebuttal Schedule D-4.10**  
 Witness: Bourassa

Line No.	Description	Spot <sup>1</sup> Oct. 14, 2013	2014 <sup>2,3</sup>	2015 <sup>2,3</sup>	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts	3.8%	4.1%	4.2%	4.0%
7					
8	Value Line	3.8%	4.1%	4.5%	4.1%
9					
10	Average				4.1%
11					
12					
13					

<sup>1</sup> Federal Reserve

<sup>2</sup> October 2013 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

<sup>3</sup> Value Line Quarterly forecast, dated August 23, 2013, Long-term Treasury

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Litchfield Park Service Company dba Liberty Utilities  
Computation of Current Market Risk Premium

Exhibit  
Rebuttal Schedule D-4.11  
Witness: Bourassa

Line No.	Month	Dividend Yield ( $D_t/P_0$ ) <sup>1</sup>	Expected Dividend Yield ( $D_t/P_0$ ) <sup>2</sup>	Growth (g) <sup>3</sup>	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Market Risk Premium (MRP)
1	Jan 2012	2.61%	2.98%	+ 14.18%	= 17.16%	= 3.03%	= 14.13%
2	Feb	2.60%	2.99%	+ 15.01%	= 18.00%	= 3.11%	= 14.89%
3	Mar	2.36%	2.65%	+ 12.33%	= 14.98%	= 3.28%	= 11.70%
4	April	2.62%	3.02%	+ 15.22%	= 18.24%	= 3.18%	= 15.06%
5	May	2.86%	3.38%	+ 18.12%	= 21.50%	= 2.93%	= 18.57%
6	June	2.73%	3.18%	+ 16.59%	= 19.77%	= 2.70%	= 17.07%
7	July	2.79%	3.29%	+ 18.10%	= 21.39%	= 2.59%	= 18.80%
8	Aug	2.73%	3.17%	+ 16.23%	= 19.40%	= 2.77%	= 16.63%
9	Sept	2.67%	3.07%	+ 14.95%	= 18.02%	= 2.88%	= 15.14%
10	Oct	2.71%	3.14%	+ 15.81%	= 18.95%	= 2.90%	= 16.05%
11	Nov	2.74%	3.15%	+ 14.88%	= 18.03%	= 2.80%	= 15.23%
12	Dec 2012	2.62%	2.95%	+ 12.63%	= 15.58%	= 2.88%	= 12.70%
13	Jan 2013	2.56%	2.86%	+ 11.74%	= 14.60%	= 3.08%	= 11.52%
14	Feb	2.60%	2.94%	+ 13.13%	= 16.07%	= 3.17%	= 12.90%
15	Mar	2.52%	2.82%	+ 11.94%	= 14.76%	= 3.16%	= 11.60%
16	April	2.46%	2.74%	+ 11.40%	= 14.14%	= 2.93%	= 11.21%
17	May	2.47%	2.73%	+ 10.70%	= 13.43%	= 3.11%	= 10.32%
18	June	2.54%	2.83%	+ 11.49%	= 14.32%	= 3.40%	= 10.92%
19	July	2.40%	2.63%	+ 9.51%	= 12.14%	= 3.61%	= 8.53%
20	Aug	2.52%	2.79%	+ 10.57%	= 13.36%	= 3.76%	= 9.60%
21	Sept	2.47%	2.70%	+ 9.46%	= 12.16%	= 3.79%	= 8.37%
22							
23							
24							
25							
26							
27	Recommended	2.48%	2.74%	+ 10.52%	= 13.26%	= 3.43%	= 9.83%
28							
29	Short-term Trends						
30	Recent Twelve Months Avg	2.55%	2.86%	+ 11.94%	= 14.80%	= 3.22%	= 11.58%
31	Recent Nine Months Avg	2.50%	2.78%	+ 11.10%	= 13.89%	= 3.33%	= 10.55%
32	Recent Six Months Avg	2.48%	2.74%	+ 10.52%	= 13.26%	= 3.43%	= 9.83%
33	Recent Three Months Avg	2.46%	2.71%	+ 9.85%	= 12.55%	= 3.72%	= 8.83%
34							
35							

<sup>1</sup> Average Current Dividend Yield ( $D_t/P_0$ ) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks  
<sup>2</sup> Expected Dividend Yield ( $D_t/P_0$ ) equals average current dividend yield ( $D_t/P_0$ ) times one plus growth rate(g).  
<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks  
<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

Litchfield Park Service Company dba Liberty Utilities  
Capital Asset Pricing Model (CAPM)

Exhibit  
Rebuttal Schedule D-4.12  
Witness: Bourassa

Line No.	Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k
1							
2							
3	4.1%	+	0.71	x	6.7%	=	8.8%
4							
5	4.1%	+	0.71	x	9.8%	=	11.0%
6							
7							9.9%
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

<sup>1</sup> Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBBI 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.

Litchfield Park Service Company dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps Risk Premium Study Data*

Rebuttal Schedule D-4.13  
 Witness: Bourassa

	Company	Symbol	Measures of size (Millions)					
			MV Equity <sup>1</sup>	Book Equity <sup>1</sup>	MVIC <sup>1</sup>	5 Yr Avg. Net Income	Total Assets <sup>2</sup>	5 Yr Avg. EBITDA <sup>3</sup>
1.	American States	AWR	\$ 1,064	\$ 457	\$ 1,397	\$ 37	\$ 1,281	\$ 130
2.	Aqua America	WTR	\$ 4,337	\$ 1,393	\$ 5,827	\$ 133	\$ 4,859	\$ 422
3.	California Water	CWT	\$ 964	\$ 538	\$ 1,394	\$ 41	\$ 1,996	\$ 140
4.	Connecticut Water	CTWS	\$ 350	\$ 186	\$ 529	\$ 11	\$ 579	\$ 24
5.	Middlesex	MSEX	\$ 333	\$ 181	\$ 467	\$ 13	\$ 562	\$ 38
6.	SJW Corp.	SJW	\$ 577	\$ 296	\$ 912	\$ 21	\$ 1,087	\$ 89
	Litchfield Park Service Company dba Liberty Utilities		NA	\$ 11.0	NA	\$ 1.3	\$ 29.7	\$ 6.4

<sup>1</sup> From Zacks Investment Research data

<sup>2</sup> From Zacks Investment Research. From E-1 for subject utility.

<sup>3</sup> Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data (\$ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 36.9
Aqua America	WTR	\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 133.3
California Water	CWT	\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 40.9
Connecticut Water	CTWS	\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 10.9
Middlesex	MSEX	\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 12.8
SJW Corp.	SJW	\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 20.8
Litchfield Park Service Company dba Liberty Utilities		\$ 5.8	\$ 4.4	\$ (0.9)	\$ (2.1)	\$ (0.7)	\$ 1.3

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

<sup>4</sup> Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data (\$ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 130.0
Aqua America	WTR	\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 422.0
California Water	CWT	\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 139.5
Connecticut Water	CTWS	\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 23.6
Middlesex	MSEX	\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 38.0
SJW Corp.	SJW	\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 89.1
Litchfield Park Service Company dba Liberty Utilities		\$ 9.8	\$ 10.1	\$ 4.0	\$ 4.2	\$ 3.7	\$ 6.4

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance  
 EBITDA data for subject utility from E-1 and/or ACC reports

Litchfield Park Service Company dba Liberty Utilities  
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
Based on Duff and Phelps Risk Premium Study Data

MRP<sub>m+s</sub> Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt  
Data Smoothing with Regression Analysis  
Smoothed Premium (RP<sub>m+s</sub>) = Constant + X Coefficients \* Log(Relevant Metric)

$RP_{unlevered} = RP_{levered} - W_d/W_e * (\beta_u - \beta_d) * RP_{market}$   
Where  $\beta_u$  = unlevered portfolio beta  
 $\beta_d$  = debt beta, assumed to be 0.1  
 $W_d$  = percentage of debt in capital structure  
 $W_e$  = percentage of equity in capital structure  
 $RP_{levered}$  = levered realized risk premium

Constant  
X Coefficient(s)

	Company	Symbol
1.	American States	AWR
2.	Aqua America	WTR
3.	California Water	CWT
4.	Connecticut Water	CTWS
5.	Middlesex	MSEX
6.	SJW Corp.	SJW
	Average (unlevered)	

Litchfield Park Service Company dba Liberty Utilities

Rebuttal Schedule D-4.14  
Witness: Bourassa

MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
18.475%	15.380%	18.661%	13.224%	17.273%	14.736%
-3.239%	-2.561%	-3.201%	-2.616%	-2.812%	-2.723%
MRP <sub>m+s</sub> (unlevered)					
MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA
8.67%	8.57%	8.59%	9.12%	8.53%	8.98%
6.69%	7.33%	6.61%	7.67%	6.91%	7.59%
8.81%	8.39%	8.60%	9.01%	7.99%	8.90%
10.24%	9.57%	9.94%	10.51%	9.50%	11.00%
10.30%	9.60%	10.12%	10.33%	9.54%	10.43%
9.53%	9.05%	9.19%	9.78%	8.74%	9.43%
9.04%	8.75%	8.84%	9.40%	8.54%	9.39%
NA	12.71%	NA	12.94%	13.13%	12.55%
Average					
					8.75%
					7.13%
					8.61%
					10.13%
					10.05%
					9.28%
					8.99%
					12.83%

Indicated size premium 3.84%

**Unlevered Portfolio Beta**  
(from 2012 Duff & Phelps RP Study - Table C)

(from 2012 Duff & Phelps RP Study - Table C)

Witness: Bourassa

Company	Symbol	Unlevered Portfolio Beta ( $\beta_u$ )						Average
		(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	
1. American States	AWR	0.95	0.96	0.98	0.94	0.94	0.97	0.96
2. Aqua America	WTR	0.87	0.86	0.81	0.88	0.83	0.84	0.85
3. California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.97	0.95
4. Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99
5. Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.98
6. SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.95	0.96
Average		0.95	0.95	0.94	0.94	0.94	0.96	0.95
Litchfield Park Service Company dba Liberty Utilities		NA	0.98	NA	1.01	1.05	1.03	1.02

Litchfield Park Service Company dba Liberty Utilities  
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
Based on Duff and Phelps Risk Premium Study Data

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

$RP_{relevered} = RP_{unlevered} + W_d/W_e * (\beta_d - \beta_d) * RP_{market}$

Where  $\beta_d$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{unlevered}$  = unlevered realized risk premium from Scehdule D-4.14

$RP_{market}$  = general equity risk premium for the market since 1963 (4.4%)

Rebuttal Schedule D-4.16  
Witness: Bourassa

	Company	MRP <sub>mr's</sub> (Relevered)							Average
		W <sub>d</sub> /W <sub>e</sub>	MV Equity	Book Equity	MV/C	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	
1.	American States	31.2%	9.81%	9.72%	9.78%	10.25%	9.66%	10.15%	9.90%
2.	Aqua America	34.4%	7.83%	8.45%	7.66%	8.82%	7.98%	8.68%	8.24%
3.	California Water	44.7%	10.50%	10.02%	10.23%	10.62%	9.57%	10.57%	10.25%
4.	Connecticut Water	51.1%	12.12%	11.54%	11.85%	12.42%	11.46%	13.04%	12.07%
5.	Middlesex	40.1%	11.79%	11.11%	11.62%	11.83%	11.07%	11.97%	11.56%
6.	SJW Corp.	58.1%	11.66%	11.23%	11.36%	11.93%	10.91%	11.55%	11.44%
Average MRP (Relevered)		43.25%	10.62%	10.35%	10.42%	10.98%	10.11%	10.99%	10.58%
Litchfield Park Service Company dba Liberty Utilities		8.77%	NA	13.04%	NA	13.28%	13.49%	12.90%	13.18%

Litchfield Park Service Company dba Liberty Utilities  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on *Duff and Phelps Risk Premium Study Data*

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

Schedule D- 4.17  
 Witness: Bourassa

[1] Estimate of Current Market Risk Premium ( $RP_{market}$ )	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2011) <sup>1</sup>	4.30%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.70%	
[4] Average MRP (relevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	10.58%	
[5] MRP (relevered) for publicly traded water companies ( $RP_{mr+3}$ ) ([3] + [4])	11.28%	
[6] Equity Risk Premium Adjustment ([3])	0.70%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	13.18%	
[8] MRP (relevered) for subject utility company ( $RP_{mr+3}$ ) ([6] + [7])	13.88%	
[9] Industry Risk Premium (From <i>Ibbotson</i> for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) <sup>1</sup>	0.7463	
[11] Adjusted Industry Risk Premium ( $R_i$ ) ([9] x [10])	-3.67%	
[12] Risk Free Rate ( $R_f$ ) <sup>2</sup>	3.46%	

<sup>1</sup> From Duff and Phelps Risk Premium Report 2012.

<sup>2</sup> Yield on 20 Yr U.S. Treasury October 10, 2013 (Federal Reserve)

Litchfield Park Service Company dba Liberty Utilities  
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
Based on *Duff and Phelps Risk Premium Study Data*

Cost of Equity (COE) Estimate using Build-up Method

$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$

Where:

$E(R_i)$  = Expected (indicated) rate of return

$R_f$  = Risk-free rate of return. See Rebuttal Schedule D-4-17.

$RP_{m+s}$  = Market risk premium including size premium. See Schedule D-4.16

$RP_i$  = Industry risk premium (adjusted). See Rebuttal Schedule D-4.17.

$RP_u$  = Company-specific risk premium

Schedule D- 4.18  
Witness: Bourassa

	Sample
	Publicly Traded
	Water
	Utilities
	Litchfield Park Service Company dba Liberty Utilities
$R_f$ =	3.46%
$RP_{m+s}$ =	See Table 4
$RP_i$ =	-3.67%
$RP_u$ =	0.00%

		Indicated COE $E(R_i)$					
	Symbol	Company		5 Yr Avg.		5 Yr Avg.	
		MV	Book	Net Income	Total Assets	EBITDA	Average
1.	AWR	Equity 10.30%	Equity 10.21%	10.74%	10.15%	10.64%	10.38%
2.	WTR	8.32%	8.94%	9.31%	8.47%	9.17%	8.73%
3.	CWT	10.99%	10.51%	11.11%	10.06%	11.06%	10.74%
4.	CTWS	12.61%	12.03%	12.90%	11.95%	13.53%	12.56%
5.	MSEX	12.27%	11.60%	12.32%	11.56%	12.45%	12.05%
6.	SJW	12.14%	11.71%	12.41%	11.40%	12.04%	11.93%
Average COE estimate		11.11%	10.83%	11.47%	10.60%	11.48%	11.06%
Litchfield Park Service Company dba Liberty Utilities		NA	13.53%	NA	13.98%	13.39%	13.67%

**Litchfield Park Service Company dba Liberty Utilities**  
**Financial Risk Computation**  
**Unlevered Beta**

**Exhibit**  
**Rebuttal Schedule D-4.19**  
Witness: Bourassa

Line No.	Company	VL Beta $\beta_{VL}^1$	Raw Beta $\beta_{Raw}^2$	Tax Rate $t^3$	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta $\beta_{UL}^5$
1	1. American States	0.70	0.55	39.9%	23.8%	76.2%	0.46
2	2. Aqua America	0.60	0.40	39.0%	25.6%	74.4%	0.33
3	3. California Water	0.65	0.48	37.5%	30.9%	69.1%	0.38
4	4. Connecticut Water	0.75	0.63	32.0%	33.8%	66.2%	0.47
5	5. Middlesex	0.70	0.55	33.9%	28.6%	71.4%	0.43
6	6. SJW Corp.	0.85	0.78	41.1%	36.8%	63.2%	0.58
12	Sample Water Utilities:	0.71	0.57	37.2%	29.9%	70.1%	0.45

<sup>1</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta =  $.33 + (.67) * \text{Raw beta}$

<sup>2</sup> Raw Beta =  $(VL \text{ beta} - .33) / (.67)$

<sup>3</sup> Effective tax rates for year ended December 31, 2011.

<sup>4</sup> See Rebuttal Schedule D-4.3

<sup>5</sup> Raw  $\beta_{UL} = \text{Raw } \beta_{UL} / (1 + (1-t)*D/E)$

Litchfield Park Service Company dba Liberty Utilities  
Financial Risk Computation  
Relevered Beta

Exhibit  
Rebuttal Schedule D-4.20  
Witness: Bourassa

Line No.	Unlevered Raw Beta $\beta_{UL}^1$	MV Book Debt $BD^2$	MV Equity Capital $EC^2$	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	Adjusted Relevered Beta $\beta_{AL} = .33 + .67(Raw Beta)$
1						
2						
3						
4						
5	Litchfield Park Service Company dba Liberty Utilities	0.45	8.1%	38.61%	0.47	0.64
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						

<sup>1</sup> Unlevered Beta from Rebuttal Schedule D-4.14.

<sup>2</sup> Proforma Capital Structure of Company

	BV (in Thousands)	MV (in Thousands)	MV %
Long-term Debt	\$ 10,420	\$ 10,420	8.10%
Preferred Stock	\$ -	-	0.0%
Common Stock	\$ 55,240	118,784	91.9%
Total Capital	\$ 65,660	\$ 129,204	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current Tax rate based on test year ending 12/31/2012. See Schedule D-1.

**Litchfield Park Service Company dba Liberty Utilities**  
**Financial Risk Computation**

**Exhibit**  
**Rebuttal Schedule D-4.21**  
 Witness: Bourassa

Line No.		<u>R<sub>f</sub></u>	+	<u>β</u>	x	<u>(Rp)</u>	=	<u>k</u>
1	<b><u>CAPM</u></b>							
2								
3	Historical Market Risk Premium	4.1%	1	0.71	2	6.7%	3	8.8%
4	Current Market Risk Premium	4.1%	1	0.71	2	9.8%	4	11.0%
5								
6	Average							9.9%
7								
8								
9								
10	<b><u>CAPM Relevered Beta</u></b>							
11								
12	Historical Market Risk Premium	4.1%	1	0.64	5	6.7%	3	8.3%
13	Current Market Risk Premium	4.1%	1	0.64	5	9.8%	4	10.3%
14								
15	Average							9.3%
16	Financial Risk Adjustment							<b><u>-0.6%</u></b>
17								
18								
19								
20								
21								
22								
23								
24								
25								

<sup>1</sup> Forecast of long-term treasury yields. See Rebuttal Schedule D-4.10

<sup>2</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBBI 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11

<sup>5</sup> Relevered beta found on Rebuttal Schedule D-4.15

**Exhibit**  
**Rebuttal Schedule D-4.22**  
**Witness: Bourassa**

### Estimated Risk Premium for small water utilities<sup>6</sup>

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,912 million and \$7,687 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$512 million.

<sup>3</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review*, 2000, 70, includes companies with market capitalization between \$1.1 trillion and \$294 billion.

7 Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums

	Market Cap.	Size	Difference
1	100	100	0
2	200	200	0
3	300	300	0
4	400	400	0
5	500	500	0
6	600	600	0
7	700	700	0
8	800	800	0
9	900	900	0
10	1000	1000	0
11	1100	1100	0
12	1200	1200	0
13	1300	1300	0
14	1400	1400	0
15	1500	1500	0
16	1600	1600	0
17	1700	1700	0
18	1800	1800	0
19	1900	1900	0
20	2000	2000	0
21	2100	2100	0
22	2200	2200	0
23	2300	2300	0
24	2400	2400	0
25	2500	2500	0
26	2600	2600	0
27	2700	2700	0
28	2800	2800	0
29	2900	2900	0
30	3000	3000	0
31	3100	3100	0
32	3200	3200	0
33	3300	3300	0
34	3400	3400	0
35	3500	3500	0
36	3600	3600	0
37	3700	3700	0
38	3800	3800	0
39	3900	3900	0
40	4000	4000	0
41	4100	4100	0
42	4200	4200	0
43	4300	4300	0
44	4400	4400	0
45	4500	4500	0
46	4600	4600	0
47	4700	4700	0
48	4800	4800	0
49	4900	4900	0
50	5000	5000	0
51	5100	5100	0
52	5200	5200	0
53	5300	5300	0
54	5400	5400	0
55	5500	5500	0
56	5600	5600	0
57	5700	5700	0
58	5800	5800	0
59	5900	5900	0
60	6000	6000	0
61	6100	6100	0
62	6200	6200	0
63	6300	6300	0
64	6400	6400	0
65	6500	6500	0
66	6600	6600	0
67	6700	6700	0
68	6800	6800	0
69	6900	6900	0
70	7000	7000	0
71	7100	7100	0
72	7200	7200	0
73	7300	7300	0
74	7400	7400	0
75	7500	7500	0
76	7600	7600	0
77	7700	7700	0
78	7800	7800	0
79	7900	7900	0
80	8000	8000	0
81	8100	8100	0
82	8200	8200	0
83	8300	8300	0
84	8400	8400	0
85	8500	8500	0
86	8600	8600	0
87	8700	8700	0
88	8800	8800	0
89	8900	8900	0
90	9000	9000	0
91	9100	9100	0
92	9200	9200	0
93	9300	9300	0
94	9400	9400	0
95	9500	9500	0
96	9600	9600	0
97	9700	9700	0

		Market Cap.	Class	Size	Difference	Weighted
		(Millions)		Premium	to Decile 10	Size Premium
1.	American States	\$ 1,064	Low-Cap	1.85%	4.25%	0.1666667
2.	Aqua America	\$ 4,337	Mid-Cap	1.12%	4.98%	0.1666667
3.	California Water	\$ 964	Low-Cap	1.85%	4.25%	0.1666667
4.	Connecticut Water	\$ 350	Micro-Cap	3.81%	2.29%	0.1666667
5.	Middlesex	\$ 333	Micro-Cap	3.81%	2.29%	0.1666667
6.	SJW Corp.	\$ 577	Low-Cap	1.85%	4.25%	0.1666667
Weighted Size Premium for Small Companies						3.72%

1 FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2 Todd Wiley (No. 015358)  
2394 E. Camelback Road  
3 Suite 600  
Phoenix, Arizona 85016  
4 Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
8

9 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
10 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
12 PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES  
13 FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
15 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
17 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
18 CHARGES FOR UTILITY SERVICE  
BASED THEREON.  
19

DOCKET NO: SW-01428A-13-0042

20  
21 **REBUTTAL TESTIMONY OF**  
22 **WENDELL LICON, PHD, CFA**  
23

24 **October 23, 2013**  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**Table of Contents**

I. INTRODUCTION AND PURPOSE OF TESTIMONY..... 1  
II. EDUCATION AND PROFESSIONAL EXPERIENCE ..... 1  
III. REVIEW OF STAFF’S RECOMMENDATIONS ..... 3

8602078.1/060199.0028

## Glossary of Terms

- Book Value of Equity
  - This is the accounting value of the asset or the firm. It is the purchase price, minus depreciation.
- Capital Asset Pricing Model (“CAPM”)
  - CAPM is a model that is used to estimate the cost of capital for an investment that will be added to a diversified portfolio. It prescribes utilizing a relatively simple formula (the Security Market Line or SML) that has been the subject of an enormous amount of debate since its inception in the 1960s.
- Capital Rationing
  - Capital rationing is a term that denotes the choices the owners of a firm make when considering future investments in the firm. Owners of any firm do not have unlimited capital, therefore, they put that capital to work where it will yield the best returns.
- Discounted Cash Flow (“DCF”)
  - The DCF estimates the future cash flows from an investment, then discounts them to reflect the fact that, for example, a \$100 cash flow three years from now is not as valuable as \$100 today.
- Hamada Adjustment
  - Robert Hamada developed this adjustment to the CAPM’s beta, which is a measure of a stock’s systematic risk. Hamada’s equation adjusts the beta to reflect the impact of taxes and increased leverage on the beta. It is a way to estimate the effect of leverage on a firm’s beta.
- Leverage
  - Leverage describes the extent of the use of debt financing by the company. Bonds and loans are cash provided to the company by outside parties, thus creating leverage. This is not “cost free” capital – the money provided through bonds and loans has to be repaid, or the lender can put the company into “default” and can force the company into bankruptcy if their claims are

1 not paid. Thus, bonds and loans increase a firm's risk – they are notes that  
2 have to be paid, they have first claim on the income of the firm, and if they  
3 are not paid and bankruptcy follows, the bond and loan holders have the first  
4 claim on the assets of the company.

5 • Liquidity

- 6 ○ Liquidity is the ability to sell an investment at a price close to its market  
7 value. Publicly traded firms offer high liquidity – you can sell your shares  
8 in minutes and receive cash. Bonds and Treasuries are also saleable,  
9 though it is a smaller, less active market. Privately held firms are not liquid  
10 – the sales process takes time, both in finding a buyer and in closing the  
11 transaction.

12 • Liquidity Premium

- 13 ○ To convince an investor to invest in a less liquid asset, there has to be a  
14 premium, either through reduced risk (bonds and Treasuries) or through a  
15 higher return (privately held firms.)

16 • Market Risk Premium (“MRP”)

- 17 ○ The MRP is the expected return on a portfolio of investments in the market  
18 (along the Security Market Line) minus the “risk-free” rate available to  
19 investors in U.S. Treasuries.  
20 ○ Security Market Line (“SML”)  
21 ■ The SML is a construct from the CAPM. It is the expected return for  
22 an asset based upon the level of systematic risk (beta) inherent in that  
23 asset. In the CAPM formula, the risk-free rate is subtracted from the  
24 SML to yield an estimate of the equity premium.  
25 ○ Risk-Free Rate  
26 ■ The rate available to investors from investing in U.S. Treasuries, the  
safest investment available. An essential and occasionally  
overlooked element in CAPM is that the term of the U.S. Treasury  
selected for the risk-free rate should be equal to the term on the asset  
whose cost of capital is being estimated.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

- Market Value of Equity
  - This is the market value of the firm less the market value of the firm's liabilities.
  
- Risk Premium
  - For any investment, the higher the risk, the higher the expected return in order to attract investment capital.
  - For example, a Certificate of Deposit ("CD") at a chartered bank has very little risk, but investors have to "lock up" their capital for a period of time (often 90, 180, or 360 days). Therefore, investors demand a return that is usually equal to the expected rate of inflation during that time.
  - Highly rated corporate bonds have very low risk and usually receive a yield slightly above U.S. Treasury bonds for similar investment periods. Equity investments of either the stocks of a publicly traded company or a privately held firm have numerous risks. Because of those risks, investors demand much higher returns.

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Wendell Licon. My business address is Department of Finance,  
4 Arizona State University, P.O. Box 873906, Tempe, Arizona 85287-3906.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
7 which I will refer to as "LPSCO".

8 **Q. DID YOU PREVIOUSLY TESTIFY IN THIS CASE?**

9 A. No.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. I provide a high level overview on cost of capital, in particular, Return on Equity  
12 ("ROE") and illustrate why Staff's recommendation is too low and doesn't pass the  
13 reasonableness test. Also, I have included a Glossary of Terms which I have  
14 included in my testimony behind the Table of Contents. Mr. Bourassa speaks to  
15 the details of the financial models used by the Staff in constructing their ROE  
16 recommendations.

17 **II. EDUCATION AND PROFESSIONAL EXPERIENCE**

18 **Q. CAN YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND?**

19 A. I completed my BBA with a Finance concentration and a Minor in Actuarial  
20 Science from the University of Texas at Austin ("UT") in 1985. After that, I  
21 continued my education at UT, completing my MBA in 1987, also concentrating in  
22 Finance. Finally, I completed my PhD in Finance with Minors in Statistics and  
23 Economics from UT in 2003.

1 **Q. BESIDES YOUR FORMAL EDUCATION, DO YOU HAVE ANY OTHER**  
2 **PROFESSIONAL DESIGNATIONS THAT ARE APPLICABLE TO THE**  
3 **FINANCE FIELD?**

4 A. Yes, besides having my PhD, I am a Chartered Financial Analyst as designated by  
5 the CFA Institute. I achieved this designation in 1992. As the CFA website states:

6 "The CFA Program is a globally recognized, graduate level curriculum that  
7 provides a strong foundation of real-world investment analysis and portfolio  
8 management skills along with practical knowledge you need in today's  
9 investment industry."<sup>1</sup>

10 **Q. CAN YOU PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND?**

11 A. Yes. I teach undergraduate and graduate level finance students at Arizona State  
12 University. I have taught at ASU since 2003. During my time as a faculty member  
13 I have taught Fundamentals of Finance, Managerial Finance and Advanced  
14 Corporate Finance among other courses. I am currently the Faculty Director for  
15 the Online MBA Program at the W.P. Carey School of Business at Arizona State  
16 University. While at ASU, I also guest lectured at Kennesaw State University  
17 where I taught Foreign Currency Management and Executive Compensation in the  
18 Executive MBA Program. Prior to coming to ASU, I was a Visiting Professor at  
19 the University of Oklahoma where I taught Financial Administration of the Firm,  
20 Advanced Business Finance and Business Finance to both undergraduates as well  
21 as MBA students. Finally, while a doctoral student at the University of Texas,  
22 I was an Assistant Instructor teaching Business Finance. Overall, I have been  
23 teaching finance related courses since 1998 to thousands of undergraduate and  
24 graduate students. I am well acquainted with and have taught financial subjects  
25

26 <sup>1</sup> <http://www.cfainstitute.org/programs/cfaprogram/Pages/index.aspx>

1 such as the Discounted Cash Flow ("DCF") and Capital Asset Pricing Model  
2 ("CAPM") extensively.

3 **Q. BESIDES TEACHING, WHAT OTHER RELEVANT PROFESSIONAL**  
4 **EXPERIENCE DO YOU HAVE?**

5 A. Prior to my academic career I worked with numerous private sector firms utilizing  
6 my financial expertise including Towers Perrin, Enron, HR Sense, Lola Wright  
7 Foundation, Liberty Mutual Insurance Company and Electronic Data Systems  
8 Corporation. Among the most directly linked was my work from 1988-1995 for  
9 Electronic Data Systems Corporation. In this role, I handled a number of financial  
10 treasury related activities including Corporate Finance, Foreign Exchange Trading  
11 and an Investment Portfolio Manager. In these capacities I was responsible for,  
12 among other things, evaluating risk and return for various investments.  
13 In particular I worked on the following projects: Underwriting \$650 million of  
14 long-term debt, tracking and hedging a \$500 million foreign currency portfolio and  
15 managing an investment portfolio ranging in value from \$500 million to \$750  
16 million. A copy of my resume is attached as **Exhibit WL-RB1**.

17 **III. REVIEW OF STAFF'S RECOMMENDATIONS**

18 **Q. HAVE YOU REVIEWED THE ROE RECOMMENDATIONS BY THE**  
19 **PARTIES?**

20 A. Yes. I reviewed RUCO's analysis which consisted of an unexplained ROE  
21 recommendation based solely on a prior Commission decision. I then reviewed  
22 Staff and LPSCO's ROE recommendations. The rest of my testimony focuses on  
23 the recommendations by Staff's Analyst, Mr. Cassidy.  
24  
25  
26

1   **Q.    CAN YOU SUMMARIZE YOUR CONCLUSIONS AFTER READING**  
2   **STAFF'S RECOMMENDATIONS?**

3   A.    I consider an 8.4% ROE recommendation low enough that it will likely erode  
4         incentive for future equity investments in the business.

5   **Q.    BUT ISN'T YOUR RECOMMENDATION JUST A MATTER OF**  
6   **DIFFERING OPINIONS OF EXPERTS?**

7   A.    I do not believe so. Having taught finance for a number of years and having  
8         worked on investments, I believe it is important to look at ROEs in the context of  
9         what the market is looking for and how recommendations compare. In other  
10        words, we can create detailed Excel-based financial models, correctly enter inputs  
11        into an Excel spreadsheet and arrive at an ROE recommendation but that analysis  
12        and recommendation have to withstand objective scrutiny – there needs to be a  
13        “reasonableness” test. In my work managing large investment portfolios, we did  
14        the same thing on a daily basis – created financial models, then evaluated the  
15        outputs to determine whether they matched our understanding of the competitive  
16        financial market at that point in time, and what we expected from that market going  
17        forward in time. Based on my experience, Staff's model cannot withstand such  
18        scrutiny because comparing their recommendation to other, publicly available,  
19        real world alternatives shows the recommendation to be unreasonable.

20   **Q.    WHAT ARE YOUR GENERAL IMPRESSIONS OF STAFF'S MODEL?**

21   A.    I found Staff's calculations supporting their recommendation to be biased toward  
22         achieving a low cost of capital as the end result. I found inconsistent applications  
23         of the CAPM model used by Staff. While the misapplications generate overly  
24         conservative expected rates of return, underestimating a regulatory rate of return  
25         will have a long-term effect of rationing capital to that firm. As noted in my  
26         glossary at the beginning of this testimony, capital rationing occurs when the

1 owners of a firm decide to restrict the capital to an entity. The manifestation of  
2 capital rationing's long-term effect can (counterintuitively) impact asset  
3 productivity and eventually increase the cost to consumers through greater fixed  
4 asset purchase requirements in the future for the firm. This occurs because when  
5 faced with the choice of investing more in the firm today, or waiting, the owners  
6 choose to wait because they know the investment today will not yield a sufficient  
7 return. Unfortunately for customers, the reality is that, to put it simply, capital  
8 rationing could impact things in the future such service will cost more than it does  
9 today.

10 **Q. CAN YOU ILLUSTRATE YOUR CONCERNS WITH STAFF'S ANALYSIS**  
11 **AND RECOMMENDATIONS?**

12 A. Yes, I will discuss three simple errors that illustrate how Staff incorrectly uses  
13 return on equity models. First, Staff's Excel model uses an unrealistic risk free  
14 rate. Second, the Staff Excel model uses the Historical Market Risk Premium  
15 incorrectly. Third, the Hamada adjustment is incorrectly applied.

16 **Q. HOW DOES STAFF'S CAPM MODEL MISAPPLY THE RISK FREE**  
17 **RATE?**

18 A. The CAPM methodology labeled Historical Market Risk Premium in Schedule  
19 JAC - 3 is biased downward by the use of a spot Treasury rate of return that does  
20 not have a maturity commensurate with the average useful life of the firm's current  
21 projects.<sup>2</sup> I am referring to Equation 8 on page 29 of Staff's testimony.  
22 That equation is commonly referred to as the Security Market Line (SML)  
23 Equation. Staff utilizes two applications of the SML in JAC-3. The one labeled  
24 "Historical Market Risk Premium" inputs 2.2% as the risk-free rate in the SML.

25  
26 <sup>2</sup> The Company's composite depreciation rate is approximately 3%, implying a 30 year useful life.

1 That 2.2% is sourced<sup>3</sup> as the average rate current rate generated by 5, 7, and 10-  
2 year Treasury Securities. My point of contention is the use of this medium term  
3 maturity risk-free proxy in order to estimate the expected rate of return for a firm  
4 with an average asset life greater than 30 years. This is a fundamental issue –  
5 investors in the assets of LPSCO are financing long-lived assets, the average life of  
6 LPSCO's assets is 30 years. Therefore, their investment horizon is 30 years.  
7 Using a 5, 7 and 10-year Treasury rate is a mismatch of the lives of the  
8 investments.

9 To put this in perspective, if LPSCO's primary income generating asset  
10 were 1-year useful life calculators, then Staff would almost certainly (and  
11 appropriately) be advocating using the 1-yr Treasury rate as its proxy for the risk-  
12 free rate in their estimation of the SML expected rate of return for LPSCO equity.  
13 In that case, the calculation would be overestimating the liquidity premium  
14 (premium for investing in long-term assets over and above that of a short-term  
15 asset). Because the investor in a 5, 7, and 10-year mix of Treasuries would be  
16 locking their money up for a much longer time frame than the 1-year investment.  
17 Correspondingly, the 30-year Treasury is a much more appropriate proxy for the  
18 risk-free rate in the SML estimation of LPSCO's cost of equity given the very  
19 long-term nature of LPSCO's assets. The investors in LPSCO's 30-year assets are  
20 giving up liquidity on those investments for 30 years. Therefore, I suggest that the  
21 Historical Market Risk Premium calculation used by Staff has an inherent  
22 downward bias estimate of the cost of equity capital for LPSCO because it is using  
23 proxy data from 5, 7 and 10-year Treasury Securities.

24  
25  
26 <sup>3</sup> See Direct Testimony of John A. Cassidy at 30.

1 **Q. HOW DOES STAFF'S EXCEL MODEL MISAPPLY THE MARKET RISK**  
2 **PREMIUM?**

3 A. In calculating the market risk premium (MRP) (as footnoted on page 31 of Staff's  
4 direct testimony), Staff calculates the MRP of 7.13%, comprised of a 2.1%  
5 dividend rate plus a price appreciation rate of 8.78%, less a current 30 year  
6 Treasury rate of 3.75%. The 8.78% number is described as a matter of fact but it is  
7 arrived at by taking a Value Line forecasted market price appreciation rate of 40%  
8 over the next 3 – 5 years. Staff annualized that rate over a 4-year period to arrive  
9 at 8.78%. Although that is a middle-time estimate, there is no other justification  
10 for spreading that return over 4 years. In fact, if market participants were in  
11 complete agreement with this forecast, the argument could be made that the market  
12 would move to this point earlier rather than later in order to capture these returns.  
13 If that 40% return were annualized over a 3-year period, then the annualized  
14 market appreciation rate of return would be 11.87% or a difference of 3.09% in  
15 total. This would lead to a MRP of 10.22% rather than 7.13%. Therefore, as can  
16 be seen, this has a very large impact on LPSCO's ultimate cost of equity that has  
17 been based upon a model input of 4 rather than 3 years.

18 **Q. HOW DOES STAFF'S SUGGESTED HAMADA ADJUSTMENT**  
19 **CONTRADICT THEIR COMPARISON GROUP ANALYSIS?**

20 A. My final critique is based upon Staff's use of the Hamada adjustment (mentioned  
21 on page 36 of Staff's testimony). After conversing with Mr. Bourassa, I was  
22 informed that these Hamada adjustments were made on the Staff's cost of capital  
23 comparison group (in order to adjust for a greater degree of financial leverage for  
24 the comparator firms than with LPSCO) based upon book values of equity rather  
25 than market values. That is incorrect. Given that the market values of equity for  
26 these firms is greater than the book value of equity for these firms, that incorrect

1 use of the Hamada adjustment is generating a downward bias for the beta value  
2 calculated for LPSCO.

3 To be more precise, a firm with more leverage would be subject to greater  
4 systematic risk than that of a firm without leverage. As I explained in my glossary,  
5 leverage increases the risk of a firm. Staff correctly recognizes this but uses the  
6 book value of a firm's equity to measure this effect rather than the market value  
7 (to be completely accurate, the market value of debt should also be used but the  
8 market value of debt does not tend to deviate from the book value of that debt so  
9 this is less of an issue). See **Exhibit WL-RB2** for an example.

10 The net effect of this error is to underestimate the leverage adjusted beta for  
11 LPSCO. (As I explained in my glossary, the Hamada equation was developed as a  
12 means of adjusting the beta to reflect the firm's actual leverage impact on  
13 systematic risk.) The approach of Staff's translates into a lower calculated  
14 expected rate of return for investing in LPSCO equity.

15 **Q. PLEASE SUMMARIZE YOUR REASONS STAFF'S MODELING IS**  
16 **FLAWED.**

17 A. I don't dispute that Staff correctly inputted the data and used the proper formulae in  
18 their return on equity analysis. I suggest, however, that a number of assumptions  
19 used by Staff are misguided resulting in a flawed application of the models. First,  
20 using Staff's recommended risk-free rates does not reflect the correct investment  
21 horizon given the very long-term nature of the assets being financed by this firm.  
22 If you will, the correct return for the lack of long-term liquidity in the investment is  
23 not being recognized in Staff's application using their Historical Market Risk  
24 Premium calculation of the SML equation.

25 Second, Staff's Market Risk Premium analysis is somewhat arbitrary,  
26 significantly altering the final output of the ROE recommendation. To be fair,

1 predicting the expected return on the market in the future with precision is a  
2 difficult task at best. However, using Value Line's asset appreciation values over a  
3 fluid investment horizon to establish that estimate is problematic and without a  
4 theoretical basis. In fact, a strong argument can be made for a market risk  
5 premium of 10.22% rather than 7.13% using that same forecast from Value Line.

6 Third, Staff's models misapply the Hamada adjustment creating a  
7 downward bias estimate of beta for LPSCO which further underestimates the cost  
8 of equity capital for the firm. The Hamada adjustment is intended for market  
9 values, not book values as Staff states.

10 **Q. THANK YOU. DID YOU COMPLETE ANY OTHER ANALYSIS**  
11 **REGARDING STAFF'S RECOMMENDATIONS?**

12 A. Yes. In light of the points mentioned above, I considered the analysis of Staff's  
13 recommendations from the perspective as a portfolio investment manager.

14 **Q. HOW DID YOU COMPARE THE ROE RECOMMENDATIONS IN THIS**  
15 **CASE TO YOUR PRIVATE SECTOR EXPERIENCE?**

16 A. As I testified earlier, Staff's ROE recommendations have a bias toward a lower  
17 ROE than would be required by investors in this industry. Investors have access to  
18 public market information, and prices and will allocate capital toward decisions  
19 that have the potential to generate the greatest returns. Even within an industry,  
20 investors will make those same determinations and allocate capital where it has the  
21 best promise. If it is evident that an investment has little chance of achieving the  
22 returns of other firms within an industry, after properly adjusting for risk,  
23 then capital for that firm's future needs will become rationed.

24 As a portfolio manager, my job was to analyze and manage potential  
25 investments. In this case a comparison is rather straight forward. If I was trying to  
26 decide what water utility to invest in, as an investor, I would go out and research

1 what type of returns water utilities were offering. A simple place to get this  
2 information is Value Line, from what I understand, a common tool that Staff,  
3 RUCO and LPSCO used.

4 The October 2013 issue of Value Line estimates that the average earned  
5 ROE for the utility comparison group over the next three to five years is 9.9%, over  
6 150 basis points greater than Staff's recommended ROE. That 150 basis point  
7 deficit must be substantiated by significantly lower levels of risk, but this is not  
8 apparent in Staff's recommendation.

9 **Q. WHAT ARE THE IMPLICATIONS OF SELECTING AN INVESTMENT**  
10 **OF 9.9% INSTEAD OF 8.4%?**

11 A. As someone who has managed hundreds of millions of investment dollars, it is a  
12 simple decision to invest in any of the comparison group over LPSCO without  
13 much consideration. There are comparable firms, in the same sector, facing the  
14 same market, regulatory, and inflation risks; however, the LPSCO ROE advocated  
15 by Staff is 150 basis points lower than its peers. Rational investors would not  
16 invest in LPSCO given their ability to select other firms in the sector.

17 In fact, the proxies used by Staff actually have a lower liquidity premium  
18 than LPSCO because they are publicly traded – an investor could invest in one of  
19 those firms, and then, when they want out, sell the shares in the stock market and  
20 exit the firm. On the other hand, LPSCO's investors do not have that liquidity,  
21 they cannot simply sell their shares and recover their investment. Investing in a  
22 very liquid investment that is publicly traded is preferable to investing in an illiquid  
23 privately held firm if the ROEs are comparable. In this case, however, Staff  
24 recommends that LPSCO receive 150 basis points less than the publicly traded  
25 firms. Choosing a publicly traded comparable firm with liquidity, with that kind of  
26

1 a return differential (150 basis points more ROE) is a very easy choice over an  
2 investment in this Company under Staff's ROE recommendation.

3 **Q. YOU MENTIONED LIQUIDITY. WHY IS THAT IMPORTANT TO**  
4 **INVESTORS?**

5 A. In my glossary, I defined liquidity this way:

6  
7 Liquidity is the ability to sell an investment quickly at a price very close to  
8 market value. Publicly traded firms offer high liquidity – you can sell your  
9 shares in minutes and receive cash. Bonds and Treasuries are also saleable,  
10 though it is a smaller, less active market. Privately held firms are not liquid  
11 – the sales process takes time, both in finding a buyer and in closing the  
12 transaction.

13 The comparison group companies are liquid, meaning I can sell them quickly and  
14 at a price close to market value (I may incur trading costs and a potential tax  
15 consequence for capital gains). LPSCO is not liquid. The comparison group  
16 companies and LPSCO have similar risk profiles – they are all water/sewer  
17 utilities, however, LPSCO is riskier relative to the comparison group because it is  
18 privately held, meaning lower liquidity.

19 **Q. WHAT DO YOU MEAN?**

20 As a portfolio manager, I can sell the sample companies anytime I want. In today's  
21 market, I contact my broker and sell within seconds of my decision. This is not the  
22 case for LPSCO. If I own LPSCO's stock, I do not have the freedom to sell when I  
23 want to sell it. I have to announce I am selling the company, find a buyer,  
24 negotiate a deal that is fair to both parties and file the proper documents with the  
25 Commission hoping that it approves it, something that takes some period of time.  
26 If no one wants to buy LPSCO or the Commission won't approve the sale, then I  
have no choice but to continue with my investment. The convenience of selling a

1 stock in seconds versus the uncertainty of selling the company through a negotiated  
2 process subject to regulatory approval is something investors find attractive.  
3 A better return on equity plus a greater ability to buy and sell is something that  
4 portfolio managers find beneficial.

5 **Q. ANY OTHER REASON YOU WOULD CHOOSE AN INVESTMENT IN**  
6 **ONE OF THE COMPANIES IN THE COMPARISON GROUP VERSUS**  
7 **LPSCO?**

8 A. The cost of debt versus the return on equity. As discussed in Mr. Cassidy's  
9 testimony, LPSCO's cost of debt is 6.40%. A return on equity of 8.4% is only  
10 200 basis points higher than LPSCO's actual cost of debt. That is a low return  
11 considering the risks of an equity holder. Some of the risks that equity holders  
12 incur that debt holders do not are:

- 13 • In any entity, the equity holders are responsible in lawsuits, fines and civil  
14 complaints in the respect that the payment of such financial obligations will  
15 come from what would otherwise be shareholders' earnings.
- 16 • In any entity, the equity holders are potentially liable for fines levied by  
17 regulatory agencies for violations of rules and regulations.
- 18 • In any entity, the equity holders are paid last. When the firm generates  
19 income, the debt holders must be paid first (or they will put the company  
20 into default or bankruptcy court).
- 21 • In a bankruptcy, the equity holders have the last claim on the remaining  
22 assets of the failed firm. The debt holders, tax authorities, vendors,  
23 litigation claimants, and any employee retirement programs, all have  
24 superior claims to the assets.

25 In fact, there is also considerable risk if you simply consider future equity  
26 investments that may be necessitated by future growth, replacement of depreciated

1 assets, repairs to assets that unexpectedly fail, etc. Without adequate regulated  
2 returns Liberty may be required to make further equity investments in LPSCO in  
3 order to maintain asset values with the complete knowledge that those returns are  
4 not adequate based upon the risks involved.

5 **Q. WHAT DO YOU MEAN?**

6 A. A debt investment is much less risky than an equity investment. This is why debt  
7 costs are much lower than returns on equity. As a portfolio investor, I usually  
8 wouldn't recommend an investment in a return of equity that is only 200 basis  
9 points greater than the cost of debt for that same firm. The risk isn't worth it  
10 because the return is too low to compensate someone for taking on the risks of an  
11 equity holder. Put another way, investing in LPSCO is a much more promising  
12 investment relative to an equity investment in the firm.

13 **Q. DOESN'T THIS ENCOURAGE COMPANIES TO TAKE ON MORE DEBT**  
14 **SINCE IT IS CHEAPER THAN EQUITY?**

15 A. Debt is leverage. In my glossary I described leverage the following way:

- 16       ○ Leverage describes the extent of the use of debt financing by the company.  
17       Bonds and loans are cash provided to the company by outside parties, thus  
18       creating leverage. This is not "cost free" capital – the money provided  
19       through bonds and loans has to be repaid, or the lender can put the company  
20       into "default" and can force the company into bankruptcy if their claims are  
21       not paid. Thus, bonds and loans increase a firm's risk – they are notes that  
22       have to be paid, they have first claim on the income of the firm, and if they  
23       are not paid and bankruptcy follows, the bond and loan holders have the first  
24       claim on the assets of the company.

25 The key point to bear in mind is in the last sentence, "bonds and loans increase a  
26 firm's risk." As the firm becomes riskier, both equity and debt costs become  
higher, and the customers will pay those higher costs of capital through rates.

1 In the case of LPSCO, that increased risk also means that the utility service  
2 company is less stable than now and, presumably, what the Commission would  
3 prefer.

4 **Q. EVEN IF WE COMPLETELY AGREE WITH YOU DR. LICON, ISN'T**  
5 **VALUE LINE JUST ONE SOURCE OF DATA?**

6 A. Yes, however Mr. Bourassa points out numerous instances where the comparable  
7 ROE's are much higher than an 8.4% recommendation.

8 **Q. BUT COULDN'T ANOTHER INVESTOR CHOOSE LPSCO'S**  
9 **8.4 PERCENT RETURN ON EQUITY OVER THE COMPARISON**  
10 **GROUP?**

11 A. Yes, someone could do that but I'm not sure why they would given their ability to  
12 invest in comparable firms with higher liquidity *and* higher ROEs.  
13 Moreover, capital markets are unforgiving and do not give investors a second  
14 chance to prevent historical mistakes. In publicly traded markets, investors who  
15 have made mistakes have opportunities to discard their mistakes. In a private  
16 equity market, investors do not always have that choice. That is why it is  
17 particularly important to ensure a clear cut decision for a proper return on equity in  
18 this instance.

19 **Q. DO YOU HAVE ANY FURTHER COMMENTS AT THIS TIME?**

20 A. Just to reiterate, an 8.4 percent recommendation is not a rate of return that would  
21 entice a new investor to purchase the equity of this firm. While we are not  
22 considering new investors, it is important to note that in a capital market, current  
23 investors choose to continue investing each day only if the return on that  
24 investment continues to meet their minimum threshold expectations.

25 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

26 A. Yes.

# **EXHIBIT WL-RB1**

## **LAWRENCE WENDELL LICON, CFA**

Arizona State University  
W.P. Carey School of Business  
Department of Finance, BAC 583  
P.O. Box 873906  
Tempe, AZ 85287-3906  
E-Mail: Wendell.Licon@asu.edu  
Ph: 480-965-3258 Fax: 480-965-8539

### **Research Interests**

Corporate Finance, Executive Compensation, Corporate Governance.

### **Education and Certifications**

**The University of Texas at Austin**, Austin, Texas

**PhD, Finance, Minors in Statistics and Economics**, 2003

Dissertation: "Industry Homogeneity and Performance Impact on Relative Pay Performance in Executive Compensation", Co-Chairs: John Martin and Robert Parrino.

Lola Wright Foundation Scholarship, 1997.

**Association for Investment Management Research**

**Chartered Financial Analyst**, 1992.

**Phoenix CFA Society**, Member and Serve on Board of Directors - Education Chair, 2005- Present.

**The University of Texas at Austin**, Austin, Texas

**MBA, Finance Concentration**, 1987

Professional Report: "Testing for Seasonal Behavior of Maturity and Default Premiums of Long-Term Bonds."

**The University of Texas at Austin**, Austin, Texas

**BBA, Finance Concentration**, 1985, Minor work in Actuarial Science.

### **Teaching Experience**

Clinical Promotion to Clinical Associate Professor August 2009.

Clinical Assistant Professor – **Arizona State University**

Managerial Finance, MBA, Spring (Trimester III) 2007, Spring (Trimester III) 2008

Managerial Finance, Online-MBA, Fall 2008

Managerial Finance, Corporate Online-MBA, Jobing.com, Fall 2007

Managerial Finance, Undergraduate, Summer 2006, Spring 2009

Fundamentals of Finance (Honors Students), Fall 2008, Spring 2009, Spring Intersession 2009

Fundamentals of Finance (Finance Majors), Fall 2008, Spring 2009

Fundamentals of Finance (Online), Undergraduate, Summer 2009

Fundamentals of Finance, Undergraduate, Fall 2003 - Spring 2008

Executive Education, Freescale Semiconductor, Inc., Securities Law and Investor Relations/Treasury, Summer 2005

Invited to Submit a Proposal for the Last Lecture Series, Spring 2004 and Spring 2006

John W. Teets Outstanding Undergraduate Teaching Finalist, Spring 2005

Nominated by Finance Department for the Huizingh Outstanding Undergraduate Professor, 2007 and 2008

Responsible for Fundamentals of Finance Honors Breakout Section, Fall 2003 – Spring 2007

**Guest Lecturer – Kennesaw State University**

Foreign Exchange Components, EMBA, Spring 2007  
Foreign Exchange Components, EMBA, Fall 2006  
Executive Compensation and Foreign Exchange Components, EMBA, Spring 2005  
Executive Compensation and Foreign Exchange Components, EMBA, Spring 2004  
Executive Compensation Component, EMBA, Spring 2003

**Visiting Instructor – The University of Oklahoma**

Financial Administration of the Firm, MBA, Summer 2002– Summer 2003  
Advanced Business Finance, Undergraduate, Fall 2001 - Summer 2003  
Business Finance, Undergraduate, Fall 2001– Summer 2002

**Assistant Instructor – The University of Texas at Austin**

Business Finance, Undergraduate, Summer 1997 and Summer 1998  
Risk Management, Undergraduate, Spring 1987

**Teaching Assistant – The University of Texas at Austin**

Business Finance (Honors), Undergraduate, Spring 1998  
Futures and Options, MBA, Spring 1997  
Investments, MBA, Fall 1996, Fall 1997  
Corporate Finance, MBA, Fall 1995-Spring 1996, Fall 1997  
Actuarial Science – General Mathematics, Undergraduate, Fall 1986  
Savings Institutions, Undergraduate, Spring 1986  
Money and Banking, Undergraduate, Spring 1986

**University Service**

**Arizona State University** – MBA Program Review Task Force 2008, Finance Undergraduate Programs Committee, Finance Scholarships and Awards Committee, Business School Undergraduate Core Committee, Certificate in International Business Committee, Business Honors Consulting Finance Department Faculty Contact, and Alpha Kappa Psi Faculty Advisor.

**The University of Oklahoma** – Finance Club Faculty Sponsor, Fall 2001 – Spring 2003

**Conference Participation**

Session Chair: 2006 Financial Management Association Meetings, Salt Lake City, Utah.  
Discussant: 2004 Financial Management Association Meetings, New Orleans, Louisiana.  
Discussant: 2002 Financial Management Association Meetings, San Antonio, Texas.

**Editorial Boards**

Journal of Applied Finance: August 2008 – present.

**Text Book and Test Bank Contributions**

Introduction to Corporate Finance (Test Bank), 1<sup>st</sup> Edition, Megginson and Smart, Southwestern Publishing.  
Principles of Financial Management (Text Book), 1st Edition, Parrino and Kidwell, Wiley (2009).  
Responsible for Study Guide, Instructor's Manual, Test Bank, and Lecture Materials with Babu Baradwaj.

**Professional and Consulting Experience**

**HR Sense, Houston, Tx, Spring 2005 – Present.**

Provide statistical analysis and interpretation for compensation studies concerning EEOC related issues.

**Enron Corporation, Houston, Tx, June 2000- August 2001**

Compensation Advisor, Executive Compensation.

Responsibilities include market analysis and recommendation for compensation for corporate executives and board of director compensation; Designed the functional portion of the market driven automated system for year end compensation adjustments.

**Towers Perrin, Dallas, Tx, December 1998- June 2000**

**Consultant** - People, Performance and Rewards.

Consultant for Executive Compensation Practice including analysis and design of executive and board of director compensation plans for pre-IPO through Fortune 500 firms; Involved in option valuation recommendations and modeling.

**Lola Wright Foundation, Austin, Tx, Spring 1998**

Analyzed performance of foundation's investment managers and presented to board of trustees and asset managers.

**Electronic Data Systems Corporation, November 1988- August 1995**

**Senior Financial Analyst - Corporate Finance/Treasury, Dallas Tx, January 1995- August 1995**

Daily responsibility for commercial paper funding of global operations; Primary project involved issuance of benchmark underwritten notes of \$650 MM along with preparation of presentation to the rating agencies.

**Senior Foreign Exchange Trader, London, UK, January 1993 - January 1995**

Responsibility for tracking and hedging of global foreign currency exposure of \$500MM; Duties ranged from economic analysis of foreign economies to designing hedging strategies for strategic business units.

**Foreign Exchange Trader, Dallas Tx, July 1991 - January 1993**

Re-designed as well as implemented a new FX tracking model; Same duties as above as FX Department was moved to London.

**Portfolio Manager, Dallas, Tx, April 1990 - July 1991**

Investment management of \$500MM - \$750MM; Constructed a \$140 MM short bond portfolio; Experience included liquidity, Tax-exempt, and long-term fixed income as well as equity investments.

**Financial Analyst, Dallas, Tx, November 1988 - April 1990**

Portfolio analysis and cash management.

**Liberty Mutual Insurance Company, Boston, Ma, July 1987 – November 1988**

**Financial Analyst - Risk Management Services**

Performed loss forecasting and alternative financing analysis for clients.

**Community Service**

Desert Foothills Little League, Scottsdale, Az. – Board of Directors, Vice-President, Volunteer Coach, and Volunteer Umpire.

# **EXHIBIT WL-RB2**

Exhibit WL-RB2

$$\text{Hamada Equation: } \beta_L = \beta_u \left[ 1 + \frac{D}{E} (1 - T_c) \right] \quad \text{or} \quad \beta_u = \frac{\beta_L}{\left[ 1 + \frac{D}{E} (1 - T_c) \right]}$$

Where  $\beta_L$  = the leverage adjusted beta of a firm. Market measured betas are leverage adjusted since the market can only measure the returns of equity with leverage induced on those returns.

$\beta_u$  = the beta of a firm without the effects of any leverage. This represents the beta of the assets of the firm.

$D$  = the market value of the outstanding debt of the firm. It is generally accepted that the book value of debt can be used here since the market value of debt does not usually differ too much from the market value of the debt.

$E$  = the market value of the equity of the firm.

$T_c$  = the marginal corporate tax rate of the firm. For simplicity of this example, we will assume a 40% marginal corporate tax but the general effect of the argument will still hold at similar tax rates. We will also assume the same marginal corporate tax rates for the comparator firm as for LPSCO.

Assume that our Comparator firm has levered beta equal to 0.8, a Book Value  $D/E = 1$  and a Market Value  $D/E = \frac{1}{2}$ , while both  $D/E$  ratios for LPSCO are 10 which is close to actual. Also assume that both firms are subject to a 40% marginal corporate tax rate.

Starting with a market measured beta for our Comparator, we find the asset beta for our firm using the incorrect book value of equity:

$$\beta_u = \frac{\beta_L}{\left[ 1 + \frac{D}{E} (1 - T_c) \right]} = \frac{.8}{\left[ 1 + \frac{1}{1} (1 - .4) \right]} = .50$$

Now using this asset beta, we can find the leveraged beta of LPSCO using its  $D/E$  ratio of 1/10.

$$\beta_L = \beta_u \left[ 1 + \frac{D}{E} (1 - T_c) \right] = .50 \left[ 1 + \frac{1}{10} (1 - .4) \right] = .53$$

However, starting with the correct market value of our comparator leverage of a  $D/E$  ratio of 2, we get

$$\beta_u = \frac{\beta_L}{\left[ 1 + \frac{D}{E} (1 - T_c) \right]} = \frac{.8}{\left[ 1 + \frac{2}{1} (1 - .4) \right]} = .61538 \text{ yielding a LPSCO levered beta equal to}$$

$$\beta_L = \beta_u \left[ 1 + \frac{D}{E} (1 - T_c) \right] = .61538 \left[ 1 + \frac{1}{10} (1 - .4) \right] = .6523$$

We therefore note that by using book value equity values for our comparator group, we would have underestimated the actual levered beta for LPSCO.